



UNIVERSITY OF AGDER

# **A study on Norwegian companies in China: Challenges & successful strategies**

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*This dissertation is conducted as a concluding part of the master program in Business and Administration at the University of Agder. This Thesis is approved by the university as a part of the degree, however, this approval does not indicate that they are held responsible for the methods used or conclusions drawn in this thesis.*

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## Abstract

This paper examines what governmental and cultural challenges Norwegian companies face when entering and doing business in China. In addition, this paper also discusses what strategies to implement to overcome these challenges. With China becoming a bigger player in the global marketplace, this is an important matter not only for companies across the world but also for Norwegian companies.

Through a qualitative research method with semi-structured interviews, the research is conducted on four Norwegian companies who does business in China. The findings shows that there are many variables affecting the choice of entry mode to China and there exist governmental challenges affiliated with corruption, institutional voids. Moreover, this paper concludes that there exist cultural challenges when doing business in China such as communication and building networks, however the cultural challenges should not be seen as a bigger problem than what it is and believed to have less impact on business in the future.

The research also found that building relationships and focusing on localization and training proves to be a competitive advantage and works as an effective tool to overcome several challenges.

**Key words and terms:** Globalization, Challenges, Strategy, Institutional voids, Guanxi, Networks, Entry mode, Firm size, Corruption, Bureaucracy, China- Norway relations, Semi-structured interviews

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## Chapter 1 Introduction

There are two reasons for my choice of topic in this thesis. After hearing so much about China and how they have developed immensely over the past decade and become the ‘The world’s factory’ (Denyer, 2016) in regard of almost every single product. I have been interested in China and how this has occurred. They have developed in a pace like no other country and so far been able to maintain this as well as improving standards and technology in their large country. With this remarkable achievement and prognosis of becoming the world leading economy in the future, I find it to be an interesting topic. Additionally, I went on an exchange program to Beijing the semester before this dissertation was written, hence I was more drawn towards researching about something associated to China.

China plays a big role in the international market today, responsible for up to 16 percent of the world GDP (at PPP) in 2014 compared to less than ten percent ten years ago (Quandl, 2015). There exist forecasts of this GDP increasing further, and the world becoming smaller through globalization. Thus, everyone sees the potential China has had and will continue to have and everyone wants to be a part of the growth China is going through. International pioneers first entered China in early 1980s and since then the number of foreign companies in China have been increasing. However, it has not been the easiest thing to successfully enter China and maintain a well-established position. International companies face various challenges when entering China and doing business there. There are many success stories and stories of failure. In this thesis, I wish to achieve an in-depth understanding of what challenges Norwegian companies face when entering and doing business in China. Additionally, I will also investigate how to effectively engage in overcoming these challenges. This research can be valuable for companies trying to enter China or companies who are already in China, however not as profitable as they desire to be.

Although there exists a ‘fair’ amount of research on this topic in a general international view (Agarwal & Ramaswami, 1992; Zhang & Wu, 2014; Johnson & Tellis, 2008; Hitt, 2016; Peng, 2003; Tan, 2009), I do not believe there exists sufficient research on the role of Norwegian companies in China, and the difficulties they face. Therefore, with this thesis, I hope to further investigate and thus, provide detailed knowledge that can help improve entry and operations in China for Norwegian businesses. Moreover, with China in continuous

transition things change rapidly, thus theories and research affiliated with China needs an update.

Now there are various challenges involved in doing business in a foreign country, here I have narrowed it down and focused on a few instead of all of them. The challenges I will be focusing on are linked to entering China, governmental and cultural. I will present and discuss different elements one have to consider and be aware of such as entry mode, control, corruption and guanxi. Furthermore, I will focus on Norwegian companies and how things are for them. I will present and discuss previous theory and studies relevant to entering and doing business in China, continue on to justifying and explaining how I will conduct my research. I will then present my results and discuss them before my conclusion and final remarks on the topic. I believe I will achieve a better knowledge of what challenges Norwegian companies are facing and how to overcome these.

With this in mind my thesis question is:

*What governmental and cultural challenges face Norwegian companies on entering and doing business in the Chinese market and what strategies have they employed to overcome these challenges to maintain a competitive advantage and succeed in China?*

By competitive advantage and succeeding, I imply that these companies are still operational and well –established in China.

With this thesis, I hope to achieve the following objectives:

1. Identify and present challenges on entering China and governmental and cultural challenges
2. Discover through the research what challenges companies face today and how to overcome these
3. Obtain better understanding of what challenges one may face and how to overcome these for companies contemplating entering China and companies already present but not as profitable as desired

The rest of the thesis is written in this order: first, in chapter two, I will present Chinese history and the governmental and economic relationship between China and Norway. In the following chapter, I will present previous theory and studies relevant to the different challenges I have chosen. I start with challenges when entering as a foreign company and continue on to governmental and cultural challenges. I also briefly present different ways to

avoid and prevent these challenges in this chapter. In chapter four, I will introduce my research approach and methods, how I will conduct my research and justify why I have chosen this approach. I will also reflect upon aspects associated with quality and ethics at the end of this chapter. In chapter five, I will present my findings from my research, and discuss and compare these with the theory in chapter three. In the final chapter, I will present my conclusion of this dissertation, practical implications and suggestions for further research.

## Chapter 2 History and Norway-China Relations

The behavior and customs of a society today are rooted in that society's culture and history. Their codes of conducting business are also embedded within this very society's culture. To better understand a country and be able to work in it effectively, it is important to know why and how things in the country are the way they are today. Therefore, taking a closer look at Chinese history is a good starting point. Moreover, political relations between countries can influence business, thus I will also illustrate the relations between Norway and China.

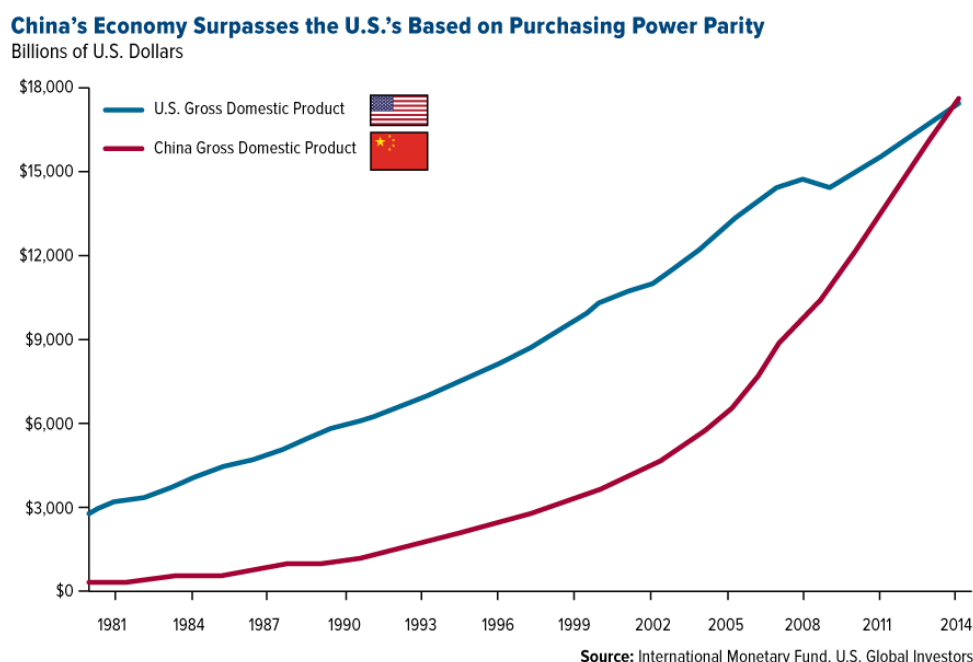
### 2.1 Chinese history

China holds a rich and vast history, having one of the oldest ancient civilizations, as well as their great contribution of various inventions to the world. Chinese believe their history goes back 7000 years and they are patriotic people, proud of their country's history (Baker & Zhang, 2012). China has also been important for the rest of the world through trade and, of course, the famous Silk Road. China is also known for their dynasties. Looking back at history, China played a huge economic role in the world before. After a period, which Chinese look at as a humiliating period of their history today (Baker & Zhang, 2012), China has again become the world's biggest economy as of 2014 in some key measures (The Economist, 2014).

The road to achieve this success has been long. The dynasties and kingdoms were the way the country was ruled until 1912, which is when the Republic of China replaced these systems. This was the first step towards building one of the largest nations in the world. However, it was not until the Civil War in China ended in 1949, that the People's Republic of China established as a country. The Communist Party under Mao Zedong's control ruled it. The systems established by Mao still exist in China today, however, the big change came in 1978 with the economic reforms of Deng Xiaoping, Mao's successor. These reforms opened up China for the world again and, since then, the country has experienced significant and rapid growth.

According to data retrieved from The World Bank (2016), China went from a low-income country to an upper middle-income country. Furthermore, the country has been able to reduce the poverty rate from 84 percent in 1981 down to 13 percent in 2008. This has led to bringing more than 800 million people out of poverty. China's average GDP growth rate has been 10

percent over the past decades and today, they play a vital role in the global market. Being the biggest economy in the world today, with a population of more than 1.4 billion people (The World Bank, 2016), makes China an attractive partner to do business with. Moreover, with considerably low labor costs and a more liberalized economy, the potential is, and has been, immense.

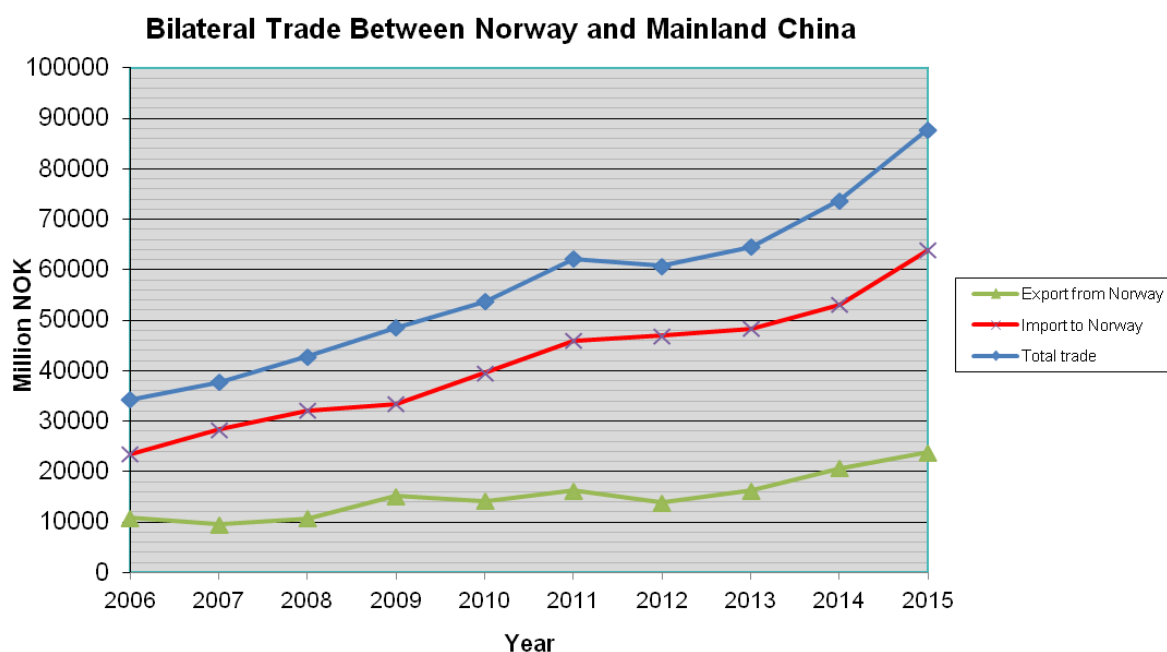


**Figure 2.1: China surpasses US**

## 2.2 Governmental and economic relationship

China and Norway have been doing business with each other for years. The main imports to Norway from China are ships, textiles and garments, as well as electronic and mechanical products. Norway, on the other hand, exports products such as machines, chemical and mineral products, and animal products (OEC, 2013). The growth in exports to China from Norway over recent years shows that there has been a positive relationship between the countries. However, this relationship changed in 2010 due to the fact that Liu Xiaobo, who was incarcerated for opposing the Chinese government, received the Nobel Peace Prize - a prize awarded by the Norwegian Noble Committee ('The Nobel Peace Prize', 2010). China warned Norway beforehand that this would lead to broken ties between the nations, despite the fact that the Nobel Peace Prize Committee who awards the prize is independent from the Norwegian government. Meetings and businesses were put on hold and, since then, the relationship between the governments has experienced a setback.

On the other hand, their economic relationship is a different story. There were major concerns at the beginning regarding how the Noble Peace Prize incident would influence the economic relationship. However, looking back at the trade between the countries, the exports to China was 20.2 billion Norwegian Kroners in 2014 – this is 50 percent more than what it was in 2010 (Harald Berglihn, 2015). The figure below illustrates the increase in trade (Norwegian Chamber of Commerce Hong Kong). Recent numbers from SSB show that most industries and businesses have not been affected by this incident, however some industries have (cited in Harald Berglihn, 2015). For instance, the salmon exports from Norway dropped significantly, from 92 percent down to 29 percent in three years, as China chose to import more salmon from The United Kingdom and Faroe Islands (NTB, 2013). Overall, we still see a growth in trade between the countries. However, this growth could have been more significant if the outcome had been different in 2010.



**Figure 2.2: Trade increase between China and Norway**

Today there are more than 200 Norwegian companies doing business in China and many of Norway's biggest companies are in China. (Innovasjon Norge, 2014). On the other hand, China has also been investing in Norway through a successful green field investment by Huawei, in addition to acquisitions of Elkem, REC and Awilco. International agencies suggest that China will surpass US as the biggest outward investor in the world (Jamil Anderlini, 2015) and so far, they have invested in more than 25000 companies around the world. China is looking to invest and expand to further develop their own country and continue having the

sustainable growth they have had. Green technology is on the agenda for China, as well as further development in technology, specifically in the areas concerning chemical products, mining and shipping. With this forecast, the potential is huge for any company that can catch the eye of the Chinese investors and companies.

One might wonder why relations between China and Norway are so important. It is strategically important for Norway to maintain a good relation with China, due to China gaining more influence in the world and being a huge potential market. On the other hand, it can be beneficial for China to maintain a healthy relationship with Norway. The Arctic area has had a lot of attention for the past years. It could be the new road for transportation if the ice melts in addition to access to natural resources and research. This road of transportation from China to Europe could lower the cost by up to 80% of what it is today for China (Masters, 2013). Therefore, they will both benefit from having a healthy economic and political relationship.

## Chapter 3 Theory

**T**he world is more globalized today than ever before in terms of knowledge flow, technology and interdependency. This means that there exists more business across borders and a dynamic business environment. Every step is crucial; where and with whom you choose to do your business with can be a vital game-changer for firms today.

The word ‘strategy’ comes from ancient Greek, and is defined as ‘a military general’ (Dictionary.com, n.d.). These days, strategies are used in different situations and environments. In business, the definition of the word ‘strategy’ is ‘The direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations’ (Johnson, Scholes & Whittington, 2008). There are strategies affiliated with various aspects of a corporation, from management to organizational. Here, however, I will focus on explaining the strategies used for entering a foreign market. Entering a new market can be a complex and advanced task, as there are many factors to consider and deal with before one can enter.

I will further introduce the different methods used to enter a foreign market and discuss what to consider before entering China. Furthermore, in this chapter, I will present governmental and cultural challenges.

### 3.1 Foreign Market Entry Modes

Definition of Market Entry mode is a significant method for the delivering of a company’s product, technology, and human and financial resources into a foreign market (Pehresson, 2008). Another definition is an institutional arrangement that makes possible the entry of a company's products, technology, human skills, management or other resources into a foreign country (Root, 1987). There exist various strategies to enter a market. These are direct exporting, licensing, franchising, strategic alliances and wholly foreign-owned enterprises (WFOE) (Johnson et. al., 2008). There also exist variations of these for example through mergers and joint ventures.

All of the aforementioned market entry modes have their strengths and weaknesses. Before choosing the mode of entry there are factors one should consider. There are many previous theories relevant to entry mode, these are based on different frameworks, and factors deemed



important by the researchers. Which mode of entry is the most efficient, profitable and suitable?

### 3.1.2 Previous theories

Agarwal and Ramaswami (1992) indicate that entry mode choices contain a commitment of four factors: resources, control, risk and profit. Furthermore, Agarwal and Ramaswami (1992) use the OLI framework of Dunning (1977, 1980, 1988) to address what factors influences the choice of entry mode. These factors are: ownership advantages, location advantages and internalization advantages. Other researchers explain that 'A firm is expected to choose the entry mode that offers the highest risk-adjusted return on investment. However, behavioral evidence indicates that a firm's choices may also be determined by resource availability and need for control (Cespedes 1988; Stopford and Wells 1972). As we see, several researchers mention some of the factors.

There are two other views which, combined, shows several factors of consideration before entering. These are: the resource-based view and market based view. The resource-based view focuses on internal factors while the market based view focuses on external factors. The internal factors are: control, flexibility, risk, product, experience, resources. The external factors are: cultural distance, market potential, demand, trade barriers, competition, networks, political and economic risk. These are all factors that can influence the choice of entry mode and whether to enter or not (Ulrich, Hollensen, & Boyd, 2014).

There exist another theory that has a different approach to entry modes. Institutional theory emphasizes the institutional factors more than the aforementioned factors in other theories and explains that formal and informal institutions influence the choice of entry mode (Luo, 2001). This theory suggests that an organization's structure and actions are affected by its social environment (Rottig, 2016).

Due to different institutions in different countries and how strong these are, these needs to be considered before choosing to enter and choosing strategy to enter. This theory is especially affiliated with companies who are doing business across developed countries and emerging markets, and because of institutional voids in emerging markets. Khanna and Palepu (1997) described institutional voids as 'the utter absence of institutions' (p.42) and noted that in emerging markets 'many types of institutions [...] are either under-developed or entirely missing' (Khanna and Palepu, 2005, p. 6).

As shown there are many theories suggesting which factors have influenced the mode of entry. In addition, as seen, many of the factors are represented in more than one theory. All of these factors can be categorized into two groups: external/macro – level factors and internal/firm- level factors.

I will elaborate further on the factors mentioned in more than one theory, the ones more relevant to China, and governmental and cultural aspects. Thus, I will elaborate on the factors: control, risk, size of firm, resources, and institutional voids.

### **3.1.3 Variables affecting mode of entry**

#### **3.1.3.1 Control**

Initially, the most important part is to be aware of the strengths and weaknesses of the entry mode strategies and understand which suits your company and products the most. There exist many differences between these strategies. As aforementioned, one key difference is the degree of control the company has, with direct exporting giving the least control and WFOE giving the most. This is shown in the figure below. Thus, as Agarwal and Ramaswami (1992) indicates, more control can be achieved by greater ownership in the foreign venture. The amount of control can be a key to success due to control over decision-making in aspects of marketing, distribution as well as the direction the company wants to take in the future. Consequently, increased control increases chances of success (Gatignon and Anderson, 1988; Isobe, Makino and Montgomery, 2000). In this sense, the company is better protected when it comes to resources, both intangible like intellectual property and tangible like technology. Additionally, transaction cost theory suggest that with more control the cost will increase accordingly (Johnson & Tellis, 2008). It becomes more time-consuming and demands higher commitment from the company to operate when the degree of control is high (Johnson & Tellis, 2008).



*Figure 3.1.3.1 Entry modes and degree of risk and control (adapted from “Hitt, Ireland, Hoskisson, Rowe, & Sheppard, 2006. Strategic Management: Competitiveness and Globalization, chapter 9)*

### 3.1.3.2 Firm size

The resources a company holds are important, because they are the bases upon which an organization achieves strategic advantage and is distinguished from competitors (Johnson et al, 2008). Moreover, empirical evidence indicates that the impact of firm size on foreign direct investment is positive (Buckley and Casson 1976; Cho 1985; Caves and Mehra 1986; Kimura 1989; Terpstra and Yu 1988; Yu and Ito 1988). Thus, more control is dependent on resources and the size of the firm. This may indicate that large companies are the only ones capable of surviving when entering a foreign market, however, investment is a long process and in the dynamic business environment in China, circumstances change rapidly. In a big bureaucratic corporation, things will generally go through a longer process compared to a small firm. Thus, making the small firm more adaptable and flexible to the swift development (Hitt, Ireland and Hoskisson, 2003). On the contrary, the smaller firms may not have enough resources to keep up with the transition. Thus, as a large firm one has more alternatives of mode of entry than small firms.

### 3.1.3.3 Risk

As seen in the figure above, control is positively correlated with risk. Agarwal & Ramaswami (1992) states that risks are likely to be higher due to the assumption of responsibility for decision making and higher commitment of resources. A high risk may result in discontinuation of the company’s activities and the loss of company resources in a particular

international market (Morschett, Schramm-Klein, & Swoboda, 2010). Hence, it is more suitable for a small firm with fewer resources to choose an entry mode with less risk such as exporting or licensing. Moreover, there is external risk such as political risk due the government with low transparency levels (Transparency International, 2010). The counterpart of risk is potential. The attractiveness of a market has been characterized in terms of its market potential and investment risk (Agarwal & Ramaswami, 1992). In this thesis, since China is chosen as the country to enter, the assumption has been made that it is an attractive market with high potential. Despite the risk being high companies across the world have entered or they are planning to enter China due to the huge potential, however companies have to consider the risks involved.

### **3.1.4 Examples from previous companies**

Looking at the Chinese market today, with the dynamic business environment in place, what worked a decade ago might not be suitable today. In the past, foreign companies chose to use joint ventures as a way to enter the Chinese market (Vanhonacker, 1996). The knowledge of the market, logistics and consumers were very low, however the potential profits were high. Gaining this knowledge through a strategic partner seemed to be the best strategy. Furthermore, due to government regulations on foreign companies it was difficult to enter through implementation of the other strategies, however still possible (Vanhonacker, 1996). Thus as suggested by the institutional theory, institutional factors influenced the mode of entry more than other firm level factors.

With China's complexity and rapid development, it is difficult to establish what should be the best entry mode. With so many success and failure stories of multinational companies, it is difficult to determine exactly how things will turn out. For example, looking at Kentucky Fried Chicken (KFC), a restaurant brand of the Yum! Brands Group, who has been in the Chinese market since the 1980s, they entered through a joint venture with local companies and have succeeded and still expanding. In other cases, we have the French company Danone who had a cooperation with the Chinese company Wahaha since 1996, however after various disagreements and a long dispute the cooperation ended in 2007. As shown above, it is very difficult to determine what the appropriate entry mode would be in order to optimize the benefits of the entry.

Many corporations have also implemented a WFOE approach when entering the Chinese market. Moreover, they had success by a combination of different strategies. For example

Johnson and Johnson, an American multinational in the pharmaceutical and medical devices industry, entered China through a joint venture. This was very successful and profitable in their case, however they were better established in the market after some time and they desired more control over the operations, thus they expanded further with new products through implementing WFOE as a strategy. This shows how a combination of two strategies can bring greater success when employed correctly. For example, General Motors reduced their stake to 49 percent in the joint venture Shanghai General Motors Company where their counter part is SAIC. Thus, SAIC will be having more control in operations and strategies. SAIC is investing in India and expanding and GM is securing their place in these huge potential markets to lead to higher growth in the future. As aforementioned, theory suggest more control will lead to higher chances of success, however we see that GM decided to choose another approach, and that in dynamic environment strategies emerge, thus things are done differently. The president of Goodyear, a tire and rubber company, for the Asia pacific region expressed this when it comes to China and success:

“You have to be very adaptive and agile to be successful in China. China forces you to change your business model; it forces you to acquire new competencies at a pace that is much faster than anywhere else” (PWC, 2013, *View*, issue 13, p 5)

Hence, with these examples, it is shown that different factors have been the determinant factors at different times in addition to different combination of these.

### **3.1.5 WFOE and joint ventures**

The entry modes used by multinational corporations have mostly been WFOE and joint ventures. Wholly foreign-owned enterprises have been gaining more and more popularity due to the full access of control and decision-making. In addition, there is less direct conflicts regarding cultural differences. However, the work and capital needed to be able to enter in this way is excessive. Recent studies has shown that the WFOE's have generally achieved more, apart from few exceptions. The profitability is 62 percent for WFOEs compared to 42 percent for joint ventures, additionally the time to break even is longer. (China Profitability Survey, 2002, Lit Search; BCG DB. p 4). Now this was in 2002, and one cannot assume this for every company and industry. For instance, online retailing has been growing rapidly the past years and in many countries in the world, thus the potential is huge, according to The Monogram Group's 2013 article 'How to Successfully Enter the Chinese Retail Market'. China comes within this category, with the largest population in the world in addition to

largest number of online users, and still increasing. China is the biggest online shopping market in the world, according to Internet World Stats data, quoted in an article in 2010 Tech Blog. Now that technology is highly improved, in this industry, the need for a WFOE to achieve utmost success is not needed, and other strategies to enter may be more suitable. This shows us that the industry the company is entering will influence the entry mode. In addition, a thorough analysis on market trend within the industry will be vital.

Another issue joint ventures have had, associated with the Chinese partner, is the lack of capabilities. The lack of business experience and the Chinese counterpart not being able to provide what was agreed upon in the first place, causing losses and leading to time-consuming disputes (Vanhonacker, 1996). Moreover, China been wanting more and more technology from foreigners doing business with them. However, the value of Intellectual property is high and a competitive advantage. With the issues of copying in China, it is hard to trust that products will not be copied. However, pairing in a joint venture may require giving up technology or sharing it, so one should come to a decision of how to handle this before any negotiations or meetings. In addition, various studies shows that a long-term commitment is more beneficial and it is only in the long run one is able to become profitable in China (Abella et al., 2012).

### 3.1.6 Overcoming challenges

As we see, the decision of how to enter can determine how successful a company can become, however, additionally there are many factors to consider before choosing entry mode, such as the industry, company's future, resources and control.

A study done on top 20 large multinational brands, where they were asked for their success and how they achieved it, gave a deep insight on how things are done. Their key ways of success were to start early, understand the market and build your own team. Building your own team meant to become local in a way that one hires locally or have Chinese collaborates instead of running business from outside the country. This view is emphasized through a Chinese perspective as well. Where a Chinese CEO's advice is to build strong governmental relationships, become local and be based in China (Tan, 2012).

Local managers are key to economic adaptation (Law et al., 2009; Porter, 1989). Local managers have a deep understanding of the institutional environment in emerging markets, understand the impact and relevance of informal institutions, are embedded in local networks

and so have access to the crucial resources needed for companies to be competitive in these markets (Luo, 2007; Peng and Luo, 2000; Rottig, 2011).

There have been rapid development and changes in China the past decades and they still are. There exist success stories and stories about never ending disputes when looking at foreign businesses in China. The key is to be aware and well prepared when electing a mode of entry to see which one suits your company and product the most. In addition, there are several factors that influence choice of entry mode. One can only learn from theories and other foreign companies experiences; however, there is no one size fits all when it comes to determining the best strategy to enter China. When it comes to doing business in emerging markets, or even across emerging markets, there are no universal truths about how to be successful, and best practices developed in one market may not be applicable in another (Khanna, 2014).

### **3.2 Institutional voids**

‘Institutional voids’ is a term used to explain what challenges and opportunities companies have, when considering to enter an emerging market (Khanna & Palepu, 2005). The word ‘emerging market’ has a broad definition and each of these emerging markets are different to one another even if they come under this category. The term “emerging markets” has not been defined uniformly in the literature (Rottig, 2016). An emerging market can have many traits of a developed market, however they are still ‘emerging’ to become an advanced economy. In other words, Emerging markets are characterized by a number of unique institutional features that generally do not exist in developed markets (Rottig, 2016).

China is a great example of this. They achieved growth and developed immensely over the past decades, however they still fall behind advanced economies within some key features. Institutional voids appears because of these gaps in the market and these areas are human development, environment, government, institutions and transparency (Rodriguez, 2013). Lack of reliable and adequate information for consumers, inefficient judicial systems that are incapable of enforcing contracts in a reliable and predictable way, misguided regulations by local governments that favor political goals over economic efficiency are some of the challenges foreign companies face in China. Furthermore, this leads to increased uncertainty, risks and costs (Khanna and Palepu, 1997, 1999, 2000, 2005).

When it comes to China, their growth has helped many people out of poverty and been great for the country (World Bank, 2016) but the rapid development has also created these

institutional voids, for instance such as the over-exploitation of human and natural resources (Rodriguez, 2013). One may argue that this choice is purely the choice of the government in place, however, the sustainability is questioned in such an approach, as are the ethics. Here I will focus on the institutional voids associated to the government and legal environment.

The focus that China has had since it opened their economy for the world has been on the economic growth. Consequently, voids have been created, thus the sustainability of further development is in question. There are both challenges and opportunities created due to these voids.

As an example from the past, township and village enterprises (TVEs) were established to maintain order and cooperation between the industrialized cities and villages. These were controlled strictly by the government, however when China opened up their economy these TVEs gained more control and became well established companies in various industries (Scott & Matthews, 2003) They took the opportunity and filled in the voids effectively. This is something other companies can do when it comes to the institutional voids. This suggests that institutional voids, for example, can provide an opportunity for technology entrepreneurship in emerging markets (Pathak, Laplume & Xavier-Oliveira, 2016). Hence, institutional voids bring challenges for companies doing business in emerging markets. On the other hand, it can also provide opportunities to establish new international ventures (Rottig, 2016).

Institutions can further be categorized in two groups, formal and informal (North, 1990). Thomé & Medeiros (2016) defines (based upon North (1990) and Scott (1995) theories) formal institutions as composed of codified and explicit rules and standards that shape behavior in a society. They define informal institutions as long-lasting systems of shared values and understandings subscribed by societal participants that are uncoded but guide coordinated and cohesive behaviors among them (Scott, 1995). Furthermore, it is argued that both formal and informal institutions shape and guide behavior on individuals and organizations (Thomé & Medeiros, 2016).

Many companies have faced difficulties in countries where there are institutional voids (Michael, 2016). The research on formal institutional distance suggests that the transfer of capabilities and routines is more difficult when the institutional distance is high (Kostova and Zaheer, 1999). Institutional distance as explained by Michael (2016) is the difference between the institutions in the companies host country and home country. In these cases, in a country



like China, informal institutions (e.g. building relationships to ensure trust) often are used to substitute for weak formal institutions (Michael, 2016). Building trust, commitment and cooperation with influential local stakeholders and becoming part of local business groups allows a foreign multinational corporation (MNC) to better fill the institutional voids, effectively respond to informal institutional demands and better navigate institutional change and transitions in emerging markets (Rottig, 2016).

One may argue that China has strong institutions instead of weak, both formal and informal. With a higher reliance on informal institutions compared to formal, one may assume that the informal institutions are stronger than the formal ones. In addition, some formal institutions such as the military are strong too. However, with the recent decrease in GDP growth (as of the time of writing), coupled with the mix of high corruption and low transparency within the government, one may question whether this supports the view of strong governmental institutions in China. Looking at the governmental system, it may seem strong, (Mertha, 2012) however, exploitation and the abuse of power is indeed present in the system (Cheng, 2011). As a result, one can assume that this affects the business environment and leads to unfair competition. The legal institutions are also questioned, due to time-consuming disputes, favoritising of Chinese counterparts, and not doing things according to the book but for personal gains and through the use of networks.

Another paradox of these institutions is that of the fight against corruption by the government. The control and authority still remains centralized and the judiciary system is not independent. Furthermore, it is influenced by the Communist party, which raises the question: how much justice is served by the legal system? The conviction rate is 99.9 percent (The Financial Times, 2015), which makes one question if all the trials are truly fair. A campaign against corruption can only truly succeed if it is administered impartially by prosecutors and courts that are independent of the government (The Financial Times, 2015). Thus, whether there are strong or weak institutions, one may wonder if they will be able to maintain sustainable development without change of the governance system. Moreover, under these conditions one may ask if the governmental and legal institutions are actually weak institutions, misperceived as strong (Mertha, 2012).

As we see, previous research and theory indicates that institutions influence the choice of entry mode. In some cases, institutional factors and institutional voids may be the defining reason for the choice of entry mode. However, despite being challenging and difficult to

overcome, institutional voids can also provide opportunities for foreign companies. One way to overcome these challenges is by building trust, show more commitment and adapt.

‘Global companies won’t succeed in unfamiliar markets unless they adapt – or even rebuild – their operating models (Khanna, 2014. p. 61). Such adaptation often requires the localization of operations’ (Rottig, 2016)

### **3.3 Governmental and legal challenges**

#### **3.3.1 Government system and bureaucracy**

There are many tools and frameworks a firm can use to gain knowledge of the market they intend to enter. One of these frameworks is the PESTEL framework (Johnson et al., 2008). Many scholars observe that the tensions most evident in globalization stem from the distinctive cultural, social, economic, legal, and educational systems, as well as the values prevalent in any given society (Falkenberg, 2004; Iyer, 2001). The distinctiveness of these systems is particularly apparent in the complex, uncertain, and volatile environments of transitional economies (Apressyan, 1997; Cordeiro, 2003; Su and Richelieu, 1999).

However, these factors will be different from country to country. For instance, if a country’s political system is corrupt or unstable it will be difficult for foreign companies to do business in or alongside the corrupt system. Furthermore, the risk that comes with political or economic instability might make it too difficult to even do business in the country in the first place. There are examples of large, multinational corporations who have been linked to corruption scandals and ethics-related situations (Adeola, 2001; Falkenberg, 2004).

All of these challenges are important to consider, however, not all of them will affect your business equally. The aim is to see which obstacles are key obstacles and which ones can be difficult to handle. As stated previously, the aim of this research is to focus on the governmental and cultural challenges.

Looking at China’s history, they are what is known as the ‘People’s Democratic Dictatorship’ (Steiner, 1950) today. The biggest companies are still mostly state-owned enterprises.

However, the number of privately owned enterprises is increasing. Nevertheless, ‘control remains firmly in the hands of the central government’, according to Laurent Belsie at the National Bureau of Economic Research. Over recent years, China has rapidly advanced when it comes to technology. Furthermore, since their economy opened up to the world and joined the World Trade Organization (WTO), China has improved laws and conduct of business and

also gained experience over time on different aspects such as legal matters and intellectual property, however, there is still room for improvement (US-China Business Council, 2015).

China's government system is different from that of the Western world, including that of Norway. The system in China is built upon, and tightly linked to, its history and values, which is unique in many ways and can seem very distant from a 'Western' perspective. This is illustrated in the figure below, which details the differences between United States, Norway, China and India. There are strict rules and procedures in play upon entering and doing business in China, and overcoming these can be a demanding task. Moreover, the system is highly bureaucratic, making acquiring licenses and permits a very time-consuming process. When regulations are vague or incomplete and their enforcement is uncertain and subject to arbitrary interpretation by local government officials, firms are confronted with great uncertainty (Ahlstrom, Bruton, & Lui, 2000; Nee, 1992; Peng, 1997). This has been the case in China since they opened up their economy to the world. As a result, to cope with this uncertainty, firm managers have been found to invest significant time to build political ties with government officials at various levels and amongst others with power and authority (Ahlstrom, Bruton, & Yeh, 2008; Li & Zhang, 2007; Luo & Peng, 2000; Sheng, Zhou, & Li, 2011). However, previous studies have determined that these ties have both had positive and negative effect on firms performance (e.g., Chen, Li, Liu, & Peng, 2014; Faccio, 2006; Hillman, 2005; Li & Zhang, 2007; Wu, Li, & Li, 2013; Cheung, Jing, Rau, & Stouraitis, 2005; Faccio, 2010; Fan, Wong, & Zhang, 2007). Additionally in some studies, there has been no direct effects of establishing ties with government officials on performance (Wang, Feng, Liu, & Zhang, 2009).

With a centralized government with a lot of authority, the government regulatory regime is the most influential, most complex, and least predictable of all the external environmental factors in China (Tan and Litschert, 1994). Thus Zhang, Tan & Wong (2014) (as cited in Luo & Peng, 2000) argues that a strong personal tie with local government officials in China has also been found to help in facilitating regulation approval and policy negotiation processes. Li (2005) supports this view and states that, in China, foreign firms with strong market orientation are more likely to utilize political and business ties to conduct business. However, a strong tie is costly to build and maintain, mainly because it requires lots of time for face-to-face interactions (Zhang et al., 2014). Moreover, forming a partnership may create a dilemma due to interdependence and a loss of autonomy (Das and Teng, 2002) as aforementioned.

Country	United States	India	China	Norway
Government	Federal constitutional republic	Democratic republic	Communist state	Constitutional Monarchy
Legal system	Common law	Hybrid Law : common, civil, religious	Chinese Civil law	Hybrid Lax: mix of Civil, common and customary law
Enforcing contracts rank(out of 189 countries)	21	178	7	8
Ease of doing business rank (out of 189 countries)	7	130	84	9
Paying taxes rank (out of 189 countries)	53	157	132	14
Government system?	Legislative, executive and judicial	Legislative, executive and judicial	Have four branches, but CCP in charge	Legislative, executive and judicial
Political stage/ stability	stable	In transition	In transition	stable
Political pressure	environmentalists; business groups; labor unions; churches; ethnic groups; political action committees and health and education groups, amongst others	numerous religious or militant organizations hundreds of social reform, anti-corruption, and environmental groups at state and local level various separatist groups seeking greater communal and/or regional autonomy	no substantial political opposition groups exist	Confederation of Norwegian Enterprise (Næringslivets Hovedorganisasjon) or NHO Norwegian Confederation of Trade Unions (Landsorganisasjonen i Norge) or LO environmental groups; media; digital privacy movements

**Table 3.3.1: Comparison of United States, China, Norway and India. (C.f. Doing Business, 2015. The World Bank Group)**

Additionally, with strong governmental ties the government achieves greater influence and may intervene in the business, which may affect performance and profitability negatively. There are also requirements by the government such as hiring of government officials and other employees in addition to bribes and fees, which leads to higher costs, lower performance and lower ethical standards (Li, Zhou & Shao, 2009).

‘Political ties may be necessary to gain permission to enter certain markets, but foreign firms should refrain from a heavy reliance on political ties; otherwise, their profitability will suffer.

‘(Li et al., 2009)

China has been in a transition and still is. Tan (as cited in Tan and Litschert, 1994) defines "Transitional economy" as formerly centrally planned economy transitioning towards market-based economies. With a bureaucratic centralized government and a socialist market economy, it is a complex combination. Thus, the institutions are in a transition: from strong use of personal institutions to conduct business to rely on impersonal institutions.

Peng (2003) suggests a theory of two phases: in early phase the reliance on personal institutions are strong due to weak formal rule-based institutions. In the late phase, when impersonal institutions gradually becomes stronger these are trusted and used and the cost of using personal institutions to conduct business it outweighed by their benefits. With the transition happening for three decades and some improvements, this is the case in China. Thus, it is interesting to see how firms are conducting business in China today and whether the focus is on personal or impersonal institutions.

‘The key question for both domestic and foreign firms in emerging economies is: How to play the game, when the rules of the game are changing and not completely known?’ (Peng, Wang & Jiang, 2008)

### 3.3.2 Corruption

Additionally, there are on-going concerns regarding transparency and corruption in the government. The government has been accused for being closed, withholding information, (US-China Business Council, 2015) and regulating laws and regulations, thus making it complicated to do business in China. Corruption is a broad term that involves many actions and according to Johnston (2005), there is a debate on what the correct definitions should be. However, one definition is that corruptions is an activity that misuses public power for private benefits (Luo, 2002). There are many ways corruption can manifest, some of these are: non-transparent governmental behavior and decisions, shortage of independent and well-functioned market mechanisms and institutions, poor quality of public service, and strong links between officials and family businesses (Luo, 2002). Moreover, with business transactions becoming more complex and a heavier reliance on personal institutions and weak impersonal institutions there is room for players to act opportunistically, which further results in dysfunctional competition (Li & Zhang, 2007).

China's government has, in recent years, claimed to initiate processes to change this, however, a significant improvement has not been made, according to The US-China Business Council (2015). With such a system, corruption is an issue concerning the people in power, as well as enterprises and people with ties to the government. This complicated situation can make it difficult for, and thus discourage companies from doing business in China. Furthermore, there may be ethical issues implicated.

### 3.3.3 Comparison & piracy

In Norway, the picture is painted quite differently in comparison to China. The growth has been slower and over longer time, mostly like other Western developed countries. Thus, it has been less troublesome to maintain sustainability and having less institutional voids. Norway scores high in aspects such as transparency and corruption levels are low in addition to obtaining strong institutions (Transparency International and Corruption Perception Index, 2015). For Norwegian companies the challenge will be to understand how to operate in a market that is different from theirs in legal aspects.

As we see from figure 3.3.1 above, there are also challenges in doing business in other foreign markets, both other emerging markets as well as other developed countries. For instance, there is substantial political pressure, due to freedom of speech and different laws, in other countries compared to China. This puts pressure on the business because companies have to conduct business in line with the government in addition to complying with the regulations of different non-governmental organizations. Moreover, to enforce contracts is a longer and more advanced process in the United States compared to China, according to the business project, Doing Business, carried out by The World Bank Group (2015). As seen in figure 3.3.1, the U.S. practices common law compared to China where they practice civil law, thus Norwegian companies have to adapt to a different legal system in both China and US. As we see, doing business in a foreign market can be challenging in different ways depending on different institutions. To prove the point, with India as another example, aforementioned processes takes much longer and there are even more complex rules to adapt to, with hybrid law, consisting of religious aspects in addition to both common and civil law.

To illustrate differences in Norwegian and Chinese business further, it is common practice to protect intellectual property in Norway and in other developed countries. In contrast, this practice has not been common in China. A Chinese word commonly used in contemporary China is 'Shanzhai', which is defined as any type or form of imitation (Baker & Zhang, 2012,

p 45). This was initially used in the manufacturing of inexpensive mobile phones imitated from big phone companies. It has increased in range and there exist imitation of retail brands, and events and even celebrities today. Supporters of this practice claim that this creates efficiency in delivering to market as well as improvement of products. Furthermore, it is innovative and affordable to more people. (Baker & Zhang, 2012. p 46). This perspective goes against the Western perspective of copyrights. Thus, laws for intellectual property are weak and it is another challenge for Norwegian firms in China.

However, due to the imitation of multinational brands and their products, these brands have been exposed to the Chinese market. With China's purchasing power and increasing numbers of middle- and upper-level income (The World Bank), these consumers who obtained the imitation products, now demand the genuine versions of these products. Thus, brands have been able to gain a larger market share from imitating and creating a stronger brand image. However, it is debatable whether this has increased revenue for said companies (Asay. 2015). For example, this has not been the case for Microsoft, who has not experienced an increase in revenue (Asay, 2015). Thus, they are attempting to use their brand image and market share to gain more revenue. An example of this is Microsoft's launch of Windows 10. They made it free to download, even on the illegal versions.

“Piracy was the gift that kept giving to Microsoft in China: It's easier for our software to compete with Linux when there's piracy than when there's not” (Bill gates, 2007).

### **3.3.4 Overcoming governmental and legal challenges**

Companies can take a variety of measures in order to fight corruption. One way of doing so, can be done through cooperation and better communication between companies to reduce corruption. We see today that many multinational companies have joined anti-corruption agreements to make this happen. Consequently, the competition will be more fair, everyone plays by the rules, are more ethical and it is easier to operate in the market for everyone. Furthermore, companies can overcome the governmental and legal challenges such as getting permits and licenses, and the highly bureaucratic system, through a better understanding of the Chinese system. Additionally, one may use the approach of having Chinese partner or Chinese connections who knows how to avoid these challenges.

‘A key means by which firms can adapt to and influence their institutional environment is to invest managerial time and effort to develop and exploit political ties with the relevant local and central government officials’ (Zhang et al., 2014)

### 3.5 Cultural challenges

Every country's culture is made up of a vast set of customs, traditions, and morals, unique to the country, and China is no exception. On the contrary, China has 56 different ethnicities officially recognized by their government. Due to the geographic size of China, each one of these ethnicities is significantly different to the others, in terms of traditions and languages. Culture can play a key role in many business relationships, and understanding and adapting to other cultures proves to be a very important asset today. Behavior, and how to interact with others while doing business can make or break a deal or, even more significantly, a partnership. Because, business as a social phenomenon is embedded in a system that consists of both economic and social factors, interpersonal relations always exist and affect the effectiveness of firm strategies (Granovetter, 1985; Uzzi, 1997).

The Chinese way of interacting has proven to be an advanced task to overcome and adapt. Many of the aspects of Chinese culture are translated into the country's business culture too, as seen in many countries around the world. The roots of today's Chinese mind and behavior are embedded in the hundreds of years of China's history and the core structure the country is built upon (Baker & Zhang, 2012). Additionally, Confucianism and the communistic Mao era both play a key role in understanding the Chinese mind and behavior.

‘National culture influences organizational behavior as well as personal behavior, the way a business is operated, and the effectiveness of business practices implementation. Yet national culture influences behavior at such a deep level that sometimes people are not aware of it, and it seems so natural that most of the time people fail to take it into account’ (Triandis, 1983. p

3)

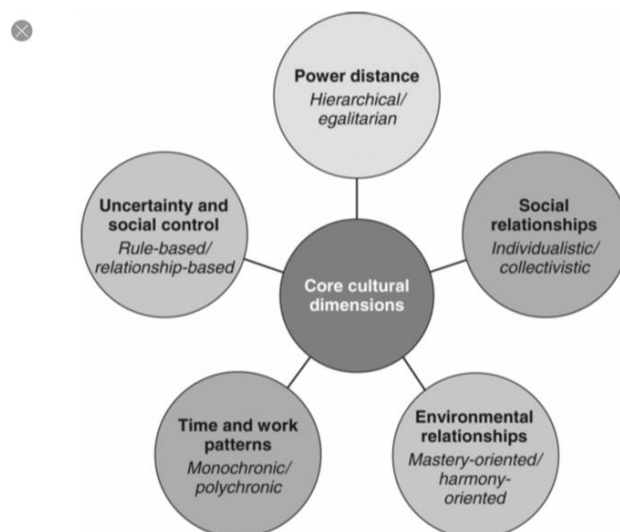
#### 3.5.1 Cultural dimensions

There are many definitions of the word ‘culture’. Geert Hofstede views culture as ‘software of the mind’ (Steers, Sanchez-Runde & Nardon, 2010), explaining that people have the same hardware, however, brains and patterns of thinking is different. The GLOBE researchers defines culture as ‘shared motives, values, beliefs, identities, and interpretations or meanings of significant events that results from common experience of members of collectives that are transmitted across generations.’ (Steers et al., 2010). Another definition by Clyde Kluckhohn, cultural anthropologist, is that ‘culture is the collection of beliefs, values, behaviors, customs, and attitudes that distinguish the people of one society from another’ (Steers et al., 2010).



From these definitions, it is clear that culture is a complex concept, made up of a variety of different factors.

There exist many models, which have tried to describe the differences and similarities between cultures, with one of the most commonly known is Geert Hofstede's model. There are also models by GLOBE researchers, Fons Trompenaars and Edward T. Hall that are popular. However, these models have been criticized for not focusing on what is relevant. On the contrary, they can be a great starting point in understanding key cultural differences. Each model introduces satisfying qualities and taking a closer look, there are five dimensions that are included in all of them, shown in the figure below. Here, I will focus on and use these five core dimensions to compare the cultural differences between Norway and China and have a ground point to start from (Steers et al., 2010).



**Figure 3.5.1 Cultural Dimensions**

### ***Power distribution***

This cultural dimension focuses on how power should be distributed. Here, we can find two opposites, hierarchical and egalitarian. The question to be asked is whether power should be in the hands of a few at the top or distributed throughout the company. Looking at Norway and China, they belong on opposite sides of this scale, Norway being more egalitarian and inclusive, while China concentrates the power at the top of the hierarchy (Steers et. al., 2010). Converging Norway's vertical organizational structure with China's flat organizational structure through an alliance can be challenging.

### ***Social relationships***

Cultures differ in how they allow people to perceive their own role in the society. In some cultures, the individual is nurtured and encouraged to achieve any goals they desire. On the other hand, in some cultures, people are encouraged to play an active role in society, and thus work towards benefiting society as a whole, rather than simply focusing on themselves as individuals (Steers et. al., 2010). Additionally, in these cultures, loyalty to those around you is highly valued. China scores low on this dimension, being a highly collectivistic society, while Norway is more individualistic (Steers et. al., 2010). To show how this can create difficulties we can look at incentives in each culture. For instance, performance-based incentives should be intertwined to groups rather than individuals in China and the opposite in the other culture, for the incentives to be most effective. (Weldon & Vanhonacker, 1999).

### ***Environmental relationships***

The two categories to define this dimension are ‘mastery-oriented’ and ‘harmony-oriented’ (Steers et al., 2010). A mastery-oriented culture gives priority to achievement and the pursuit of personal or group goals over relationships, in addition, embraces change and innovation (Steers et. al., 2010). In other words, a more masculine approach towards the work environment. On the other hand, we have the harmony-oriented cultures, in which social progress and living in harmony with nature is of a higher value. It is a more feminine approach, where there is skepticism towards change and traditions are defended (Steers et. al., 2010). In both China and Norway, there exists a more harmony-oriented culture. This shows that, despite their differences, the two countries do share some common ground in terms of environmental relationships. Finding common ground like this can be used for creating a stronger partnership when working together.

### ***Time & work patterns***

People’s perspective on time and work significantly varies across borders. For instance, in some cultures, punctuality is not considered to be very important and people do not strictly adhere to appointment times or time constraints. Furthermore, each culture differs in terms of its approach to tasks, as well as the line between personal time and working time. In some cultures, the tasks are done methodically and in a linear way. In addition, these cultures that are called ‘monochronic’ (Steers et al., 2010) tend to establish a clear line between personal and working time. On the other hand, there also exist polychronic cultures, in which things

are done the opposite way. Both Norway and China are ‘moderately monochronic’ (Steers et. al., 2010) in this dimension, with only a few differences.

### ***Uncertainty and social control***

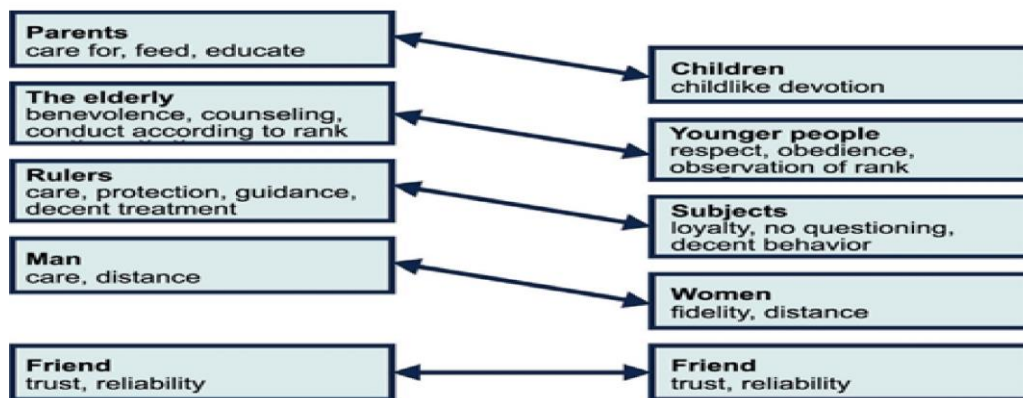
There are societies that are ‘rule-based’ and those that are ‘relationship-based’ (Steers et al., 2010). The belief in rule-based societies is that social control should be implemented by rules, laws and by the book. This means that decisions are made objectively, all contracts are formal, and there is strict record keeping (Steers et. al., 2010). On the other hand, there are relationship-based cultures, where there are rules and laws, however, the common belief is that these regulations are not sufficient on their own and instead require influential people (government officials, supervisors, parents) to enforce them (Steers et. al., 2010). Tasks are handled on an informal basis and people rely more on mutual trust and strong relationships. In this sense, there are big differences between Norway and China - Norway is strongly rule-based whereas China is strongly relationship-based.

Although this framework shows a good indication of differences and similarities in cultures, it should not be fully trusted because culture is a complex matter. Moreover, there exist subcultures and people who tend to be different from the general larger population (Steers et. al., 2010). This is on a large scale across countries, but both companies and people may vary largely from these cultural dimensions, making it an advanced task to know exactly how to behave. China has had a massive influence by rest of the world and international business over the past three decades. The effect of globalization has affected China and Chinese business to some extent. Thus, it depends if this will continue to do so and Chinese culture will get affected or not.

‘A nation’s culture influences organizational behavior as well as personal behavior, the way a business is operated, and the effectiveness of business practices implementation. All of these would ultimately generate the impact to performance’ (Zhang & Wu, 2014).

### 3.5.2 Confucianism

It can be difficult to understand and adapt to a different culture, however, gaining in-depth knowledge of the culture and how it has evolved into what it is today, makes it less challenging. Here, I will present some core values that have defined Chinese society for centuries. These values may pose a challenge when doing business with the Chinese. The first value, Confucianism, is a philosophy, which roots back to the sixth century BCE and teaches a way of life through correct moral character and personal responsibility (Steers et al., 2010, p 175). Today, this remains a core value in many aspects of Chinese life and is key to understanding the Chinese mind and behavior. This philosophy provides guidance for interpersonal relationships in everyday life (Steers et al., 2010). The basic concepts of the philosophy are shown in the figure below.



*Figure 3.5.2 Five cardinal relationships according to Confucius*

These virtues define relationships between different people in the family and society. Obedience towards the elderly and towards figures of authority is very important. Furthermore, striving for the bettering of the society and working towards harmony in society is essential. This is seen in the Chinese business environment today, in which authority is never criticized and is shown the utmost respect (Steers et al., 2010). We also see how family plays a big part in Chinese businesses and how most companies are family-run enterprises.

As we see, understanding and adapting to the Confucian Chinese business environment can be advantageous. However, the principle of subservience; where the wife is expected to obey the husband, has begun to disappear from the society; as shown through the increased number of women working and running businesses. Hence, an actualization of the ethical codes of the philosophy is important and can be challenging.

### 3.5.3 Overcoming cultural challenges

Overcoming cultural challenges can be very difficult and for some, they may never be able to overcome these. However, time and resources spent on proper training and building trust within the company and with Chinese partner will create a better understanding and awareness of the differences. Thus, when cultural differences become a challenge, people are better equipped to tackle these in a suitable way. Investing in training can be expensive, however, the benefits may outweigh the costs. Furthermore, coaching employees on cultural differences will change any misconceptions employees may have. Consequently, the company will be more adaptable and have a stronger organizational culture where the loyalty is strong among employees.

### 3.5.4 Guanxi

#### 3.5.4.1 Definition and emphasis

‘Guanxi’ is another characteristic rooted back to the social patterns of the traditional Chinese society (Steers et al., 2010, p 177). Guanxi is described as ‘a strong personal relationship between two people with implications of continual exchange of favors’ (Steers et al., 2010, p 177). It is based upon strong mutual trust, in which by no means the relationship is negatively affected by any action taken by either part. In case this happens, one is seen as untrustworthy and loses face (in Chinese ‘mien-tzu’ (Steers et al., 2010)). This term goes hand in hand with guanxi and is present in social relationships in China. In other words, ‘face’ can be associated with dignity, self-respect, and prestige (Steers et al., 2010), and there are ways in which one may lose and gain ‘face’. Losing ‘face’ and not fulfilling what is expected in the relationship and community can rapidly create a negative vicious cycle that can be hard to get out of. It can affect opportunities, such as promotions and business relationships. Personal obligations through the exchange of favors, showing respect, the recognition of hierarchy, and maintaining group harmony are all a part of ‘guanxi’ and they are highly important when doing business with the Chinese. The maintenance of close guanxi requires continual social interaction. Without it, the guanxi becomes distant and may gradually wither (Tong, 2014). Thus, guanxi can change over time depending on how one maintains it.

Why do Chinese businessmen put so much emphasis on guanxi and relationships? There are different views on this. Where one view is that, with the history of China in mind, with emperors and distrust in institutions for decades, they rely more on relations and guanxi in business. Some researchers argues that guanxi is deeply embedded in the Chinese society and

associated to Confucianism. On the other hand, the view is that the absence of trust in the legal system results in stronger confidence in relationships to make the insecurities less (c.f. Landa, 1983; Hart, 1988; Menkhoff, 1990; Luhmann, 1988). In addition, it may also constitute an informal network allowing individuals to bypass the inefficiencies inherent in a communist bureaucracy (Xin and Pearce, 1996). Some regard guanxi as the glue that holds the Chinese society together (Lovett, Simmons & Kali, 1999). It can be seen as a way to fill the voids created over time.

Thus, the reason why Chinese businessmen emphasize guanxi and relationships is, as this author explains: I argue that these business practices arose out of a deep sense of distrust, especially in the institutional and environmental conditions in which the businesses operated, and a deep sense of fear of being cheated and defrauded in their business dealings. Chinese businessmen thus develop practices that seek to minimize risk and deal with their distrust of others (Tong, 2014. p 98).

#### 3.5.4.2 In transition

However, with the circumstances today with the speed of transition in China's business environment and influenced by rest of the world, the use of guanxi can be changed. With stronger, reliable institutions and more trust in the law, the importance of guanxi may become less in business, however a change this huge can take time, where Chinese people after so many years may believe in institutions more than connections or it may never happen. Lovett et. al. (1999) suggest that use of guanxi and relationships might even play a bigger role and influence the rest of the world in the future. As we see, there are disagreements of guanxi's origin and the importance of guanxi in the future, whether it will remain or wither with time.

#### 3.5.4.3 Rule of law

As aforementioned, the judicial system in China is weak, moreover due to the culture, Chinese people prefer and generally solve disputes by themselves and indirectly instead of involving more people and face humiliation, or make people lose face. In this sense, guanxi may be seen as a substitute for the rule of law. According to Lee Kuan Yew, founding father of the Republic of Singapore, the Chinese use guanxi 'to make up for the lack of the rule of law and transparency in rules and regulations' (cited in Dunfee & Warren, 2001). Thus, companies rely on guanxi more than lawyers and the judicial system. This makes guanxi important and it fills the void created by lack of trust in formal institutions.

#### 3.5.4.4 Is Guanxi ethical?

The aspect of guanxi is however criticized. It seems like the only gate on how to gain access and succeed in the Chinese market and in many cases it still is today. The phenomenon itself is a part of the Chinese life in various aspects, however, in business, guanxi is not always positive. First, maintaining the relationship can be time –consuming and not as cost-effective as initially thought of (Dunfee & Warren 2001). Second, the guanxi is not always of the positive kind or gives the strategic advantage for the foreign company. For instance, the connections that the Chinese partner have may not be sufficient enough for them to be advantageous (Dunfee & Warren, 2001). On the contrary, instead of guanxi affecting business strategically, it can turn out to be unethical through corruption and bribes (Dunfee & Warren, 2001). To mention some issues or inefficiencies that may occur: People may be hired due to guanxi rather than skills, inefficient use of resources may occur and there may be abuse of power through guanxi (Dunfee & Warren, 2001).

#### 3.5.4.5 Overcoming Guanxi

As seen above, there are different ways guanxi can be used and misused. There are different interpretations of how much guanxi will influence the future, however guanxi, if used correctly and with precautions, can be advantageous for foreign companies. For example, having the right connections may give the company a competitive advantage compared to their competitors. On the other hand, this task itself is a challenge that can take time to overcome. If the advantage of guanxi is taken, foreign companies may counter the inefficiencies of the bureaucratic government and fill the gaps created by weak institutions. However, a consideration of whether it is ethical is important. To act ethically right and take social responsibility has become a part of companies today with pressure from governments and societies, hence, acting unethically can have an inadequate impact on the company.

Aside from tackling these challenges, a very important and effective way of interacting across cultures is when you know yourself, your culture, business, ethics well and able to reflect upon that and grow. Equally important is an awareness of the impression other cultures, or the counterpart, (or ‘your counterpart, i.e. business partner in China), have of you. In addition to, being flexible and adaptive will help you to go a long way (Steers et al., 2010 p 38 :272)

## Chapter 4 Method

**T**he content of this chapter discusses and evaluates the methodology used in my dissertation to get one step closer to finding the answer to my research question. I will additionally assess my approach through a critical lens, looking at limitations and ethical concerns.

Research is conducted in many ways and interconnected to all most anything. However, what is research? One definition is ‘Systematic investigative process employed to increase or revise current knowledge by discovering new facts’ (Businessdictionary.com, n.d). As we see, it is a systematic process of investigating to discover new or more knowledge where one collects relevant data, to further analyze it and in the end draw conclusions from the findings. There are specific rules of how to conduct the research, and accuracy as well as order is highly important. Take this dissertation as an example where a solid plan is much needed in the beginning, in addition to resources and limitations. Moreover, ethical issues needs a consideration. However, the main goal for conducting a research is to seek knowledge (Saunders, Lewis & Thornhill, 2009)

### 4.1 Goal of the research

With this research, I aim to get a better understanding of which governmental and cultural challenges face Norwegian companies when they enter and do business in China. Moreover, I intend to discover which strategies have implemented by Norwegian firms to overcome these challenges, as well as which pitfalls to avoid. I would also like to investigate what perspective these firms have of the Chinese market. My work can be useful to get a better understanding for companies who are already in the Chinese market as well as be a good tool for Norwegian companies who are considering doing business in China.

#### 4.1.1 Conducting the research

I will collect data through interviews with the respondents that I have chosen. Furthermore, I will compare and analyze my results with previous research and studies to draw conclusions and find new insights when it comes to Norwegian companies in the Chinese market. I believe, because of the scope and complexity of my topic, collecting data through interviews will be suitable. I will discuss advantages and disadvantages with this research strategy and additionally, which limitations the approach has, later on in this chapter.



#### 4.1.2 Research approach

When it comes to approaching the research there are two alternative ways one can go, these are called the deductive approach and the inductive approach. As (Saunders, Lewis & Thornhill, 2012. p 144) explains: deductive approach is when the research starts with theory through previous academic literature, followed by designing a research strategy to test the theory. It normally involves defining hypothesis and testing the theory to see if the theory is false or not. Saunders et al., (2012) further explains the characteristics of deductive approach being highly structured methodology so it can be replicated and tested. In addition, associating with trying to find and explain causal relationships between concepts and variables. Furthermore, a deductive approach is quantifiable and easily measured and the generalizability is usually high because the sample that is chosen is large. This approach is commonly used in the natural sciences. On the other hand, the approach can be inductive which Saunders et al., (2012) explains as when data is collected to explore a phenomenon and theory is generated or build through conceptual framework.

Data can be collected through method such as interviews and the findings can widely differ due to this. This approach examines ‘what’ and ‘how, however it has more emphasis on ‘why’ (Saunders et al., 2012). There is a third approach called the abductive approach that focuses on generating or modifying theory. In this approach, one can incorporate existing theory where appropriate to build new theory or modify existing one. Another way Saunders et al., (2012) explains these approaches are that in deductive approach one tends to move from theory to data, in inductive approach one moves from data to theory and in abductive approach one move back and forth between theory and data. With this in mind, I have chosen an inductive approach to my research.

#### 4.1.3 Research design

According to (Saunders et al, 2012. p 159) research design can be seen as the general plan of how one will answer their research questions. It is everything from the objectives set to specification of data collection, analyzing, ethical issues and constraints. Now, there are two ways different methods of research: qualitative and quantitative research. The qualitative research method is used when the emphasis is on a deeper understanding of a phenomenon through words rather than numbers. The research strategies used to collect data are methods such as interviews, case studies, observations. (Saunders et al., 2012). The quantitative method is conducted through testing theories, having hypothesis and collecting data through

numbers. The quantitative method is commonly affiliated with a deductive approach, however it can in some situations be linked to inductive approach too. (Saunders et al., 2012. p 162). Additionally, the quantitative method is more of a structured process compared to the qualitative one. It is important to distinguish between these methods and know which one has a stronger association with the research question(s), however, in some situations a combination of both methods will have a greater outcome (Saunders et al., 2012). I have chosen an qualitative approach to answer my research question.

#### **4.1.4 Nature of the research**

As aforementioned, the main goal of the research is to seek knowledge. Moreover, the research has an exploratory, descriptive or explanatory purpose (Saunders et al., 2012). Where the study focuses on finding and explaining a causal relationship between variables, it has an explanatory purpose. A study has an exploratory purpose where one is trying to gain insights about a new topic (Saunders et al., 2012. p 171). Another characteristic is that open questions are asked and the research can be conducted through interviews. The last category of a study, having a descriptive purpose is, explained by Saunders et al., (2012, p 171) as means to gain an accurate profile of events, persons or situations. In other words, a study where the purpose is to describe. This is achieved through methods such as observation, case study and surveys. It can also be conducted as a supplement for an exploratory study.

With these definitions in mind, I believe my research has an exploratory purpose where I am trying to gain a better understanding of a complex situation through interviews as well as to seek new insights to this topic.

#### **4.2 Data collecting method**

After a thorough research on which strategy to approach, I concluded with choosing interview as the research strategy. I found a list of all the Norwegian companies who has some form of business in China (Innovasjon Norge, 2014) and assessed whom to choose from this list. I established a certain criteria beforehand to make sure the sample I choose is not too narrow and heterogeneous, due to generalizability concerns. I will assess this matter later on in this chapter. However, I have chosen my sample according to these criteria:

- The company has to be a Norwegian company with some form of business in the Chinese market
- The company has been established for more than five years ago

Initially, I decided not to focus on only one industry or company because I wanted to achieve a broader understanding, which could be relevant to several industries, and be able to help more companies. Another thought on mind, was that the generalizability would increase in doing so. I contacted these companies after visiting their websites, seeing what they do and getting their contact details. Additionally, I contacted someone in the company who had a higher position in the company or the HR in the company got me in touch with whom had the most experience in their company regarding my topic. Thus, the interviewees had broad experience in doing business in China. A copy of the letter is submitted in the thesis and can be found in the appendix.

#### 4.2.1 My respondents

The respondents will be kept anonymous and I will address them by respondent 1,2,3,4,5. As aforementioned, these companies are from different industries and I will briefly introduce these in this section.

##### Respondent 1

This company is in the production of materials and they are one of the leading companies in the world in this industry. They operate in four business areas and I interviewed the Vice President of one branch of the company. The company was established in 1904. They have been operating in the Chinese market since beginning of 1980's.

##### Respondent 2

Established in 1957, this is another company which has been operating for a long time. They are a company who provides paper based solutions for liquid food. They are currently not operating in the Chinese market directly, however, they used to. The interviewee is a Senior Manager in the company.

##### Respondent 3

My third respondent is from a company that provides marine insurance solutions. The company was established in 1897 and worked on the Chinese soil since beginning of 1980's. The respondent from this company is the also the Vice President of the company

##### Respondent 4

The fourth respondent is from the shipping industry where the company is a global provider of transportations and logistics. The company was first established in 1927 and is one of the

world's leading provider today. They have worked in the Chinese market since mid-1980s and I interviewed the Chief Operating Officer of this company.

#### Respondent 5

The last respondent's company is an international provider of containers and module solutions for different sectors such as onshore, offshore, medical and military. Additionally, they provide wooden modular for kitchens in Norway. They run their operations in many places in the world and they were established in the year 2000.

<b>Respondent</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Industry</b>	<b>Production of materials</b>	<b>Production of packaging</b>	<b>insurance</b>	<b>shipping</b>	<b>Production of containers</b>
<b>Years entered China</b>	<b>1980</b>	<b>2000</b>	<b>1975?</b>	<b>1985</b>	<b>-</b>

*Table 4.2.1 Respondents overview*

#### 4.2.2 Interview - Semi-structured

According to Saunders et al., (2012), the research interview is a purposeful conversation between two or more people. I have chosen this research method for my thesis. There exist different types of interviews one can conduct and they vary in structure and content. The type of interview should be suitable for the research questions, purpose and objectives of the research (Saunders et al., 2012. p 372). The different types of interviews can be categorized into structured interviews, semi-structured interviews and unstructured interviews (Saunders et. al, 2012 p 373). I have chosen semi structured interview for my research and I will further address this term and show why this type is most suitable for my research.

One way of distinguishing semi-structured interviews from the other is that of the content and the structure of it. In a semi-structured interview, the interviewer prepares main themes and key questions beforehand, moreover, the order of questions asked, and structure of these may vary from interview to interview (Saunders et al., 2012. p374). Furthermore, the questions are open questions where the aim is to be able to obtain new knowledge as well as to keep the discussion within the main themes. Moreover, conducting a semi-structured interview can lead to different perspectives and discover new or other key associated relations to the topic. These interviews are preferred to be done face to face, however it is possible to use intranet

and phone where necessary or due to constraints such as cost, distance and time. This type of interview is conducted to get a better understanding of what and how, additionally, there is more emphasis on why (Saunders et al., 2012) as aforementioned.

Using a structured interview style with for instance questionnaires can be conducted and give a greater scope with statistically measurable components. Thus, the answers of the questions are pre-determined. The open questions in a semi-structured interview are not easy to measure statistically and the generalizability of the results may be less. However, this is not the task of this approach. The task is to get a better understanding of a situation, a causal relationship, and reasons for decisions, attitudes and opinions (Saunders et al, 2012 p 378).

#### 4.2.3 Plan of the interview

As aforementioned, I first contacted the companies to ask for an interview. After their response, I carefully accounted for all the pitfalls or impacts I could stumble upon. I was aware of how my interaction with the respondents, beforehand and during the interview, could have a positive or negative impact on the reliability of the results. The respondents decided upon the most convenient time for them as well as the place that was suitable for them. I prepared an agenda for the interview with the questions and sent this to them beforehand. Additionally, I also sent the respondents an overview of definitions of different topics so we had the same perception and definitions in mind when these terms were brought up. The agenda for the interview can be found in the appendix of this dissertation. The interviews took place in the respondent's offices as per their choice. The interviews took place between 16<sup>th</sup> of March to 31<sup>st</sup> of March.

I recorded the interviews after the interviewees allowed this and the recordings will be deleted after the dissertation is submitted. In addition, notes were taken throughout the interviews. The interviews went without any major interferences or technical difficulties. One respondent received a phone call he had to take for a couple of minutes during the interview, however I believe this did not interfere with or influence the interview. The questions were open-ended questions and probe questions were used effectively where needed to elaborate on different aspects discussed during the interviews. The recordings were transcribed shortly after the interviews took place to not lose vital information before the analysis. The order of the questions varied from interview to interview and the interviews evolved from one topic to another naturally to keep a good flow and to be able to detect new findings. The same questions were asked and sent to the different respondents, however, with one company not

being operational in China, their interview had other probe questions regarding what happened and why there are not still doing business in China. Most of the respondents brought their own copies of the agenda, and some with notes written on, showing that they came prepared and had a lot useful information to share.

Initially there were five chosen respondents, however respondent five, after showing interest to contribute for a couple weeks, never got back to me in the end and have not been in touch since. Thus, no interview took place, however all four interviews which took place were successful. The respondents were very welcoming and answered all the questions.

### **4.3 Data analysis**

The data analysis is based upon primary data from the interviews, which is presented and analyzed in the following chapter. Furthermore, I have compared the results with the theory from the theory chapter, thus drawing some conclusions on the different topics in the last chapter.

The qualitative data can be analyzed through processing the raw data, systematically categorizing it and then using that to draw relationships and conclusions (Saunders et al., 2012). Additionally, I have chosen an inductive approach where I have explored the data, discovered themes and then analyzed.

It has been beneficial to record and take notes during the interviews, I believe doing both made the process of gathering the data, categorizing and analyzing it easier than just doing one of them. Especially detecting key information and categorizing was easier because of the transcribing of the recordings. As aforementioned, the recordings were transcribed – a process where you write down, word by word, exactly what has been said (Merriam-Webster's online dictionary, n.d.) – before the analysis was done. It is a time-consuming task, however it makes it less difficult to process and analyze the data.

After transcribing, I read through and analyzed each transcribed version several times, to find the main key points the respondents had discussed and associated these to the main topics of my thesis. I re arranged many times to fit all the key parts transcribed into the topic for each interview.

## 4.4 Quality of the research

The quality of the research can be explained as how strong or weak it is. If the research is conducted thoroughly and all the variables that could impact the quality is accounted for, then the research can have a higher value and be strong (Saunders et al., 2012). Different criteria is established to distinguish the quality of the research, with the most common terms beings validity and reliability. I have chosen to look at my research through these criteria.

### 4.4.1 Validity

This criterion is concerned with whether the research measures what it is intended to measure. (Saunders et al., 2012, p 192). There are various forms of validity and there exist internal validity and external validity. The external validity is concerned with the generalizability of the results and the internal validity is linked to causal relationship between variables in the research.

#### 4.4.1.1 External validity

Generalizability can be defined as whether the findings can be applicable to other settings (Saunders et. al., 2012 p 382). The generalizability increases with the number of the sample being large. In this thesis, this is not the case. The number of interviews is only four, thus the external validity may seem low. However, a qualitative research's aim is not to make it generalizable, but to explore a complex dynamic phenomenon in a given context to build on previous theories or to gain new insights. It can also be the beginning of further research, which is more statistical and generalizable.

The validity may be of a concern regarding my research, however Saunders argues that high level of validity may be achieved where interviews are conducted carefully due to the scope to clarify questions, to probe meanings and to be able to explore responses and themes from a variety of angles (Saunders et. al., 2012, p 384). This is successfully accomplished with awareness of the whole interview process with emphasis on questions and how they are asked, emphasis on listening skills, behavior during the interview and emphasis on recording the data in the best way possible. I have had these biases on my mind during this research and done my best to avoid these. For instance, through thorough preparation beforehand, by sending the questions and agenda of the interview before it took place, prepared questions and probe questions and taken care of any trust related issues.

#### 4.4.1.2 Internal validity

This is a qualitative study, hence, causal relationships between variables are not in this study. However, internal validity is also concerned with authenticity regarding conclusions and results. I have used recent literature, chosen the interviewees suitable for the purpose of the research and tried to maintain the internal validity.

#### 4.4.2 Reliability

Saunders et al., (2012 p 192) defines the term reliability as to whether the data collection techniques and analytic procedures would produce consistent findings if they were repeated or replicated by others. In other words, reliability has to do with stability and consistency of the research (Sekaran & Bougie, 2013 p 225).

#### 4.4.3 Limitations

The process of a quantitative research may be easier to replicate and make consistent, however, in qualitative research, there are a few pitfalls when using interviews as a data collecting method and the results. There are a few biases that can occur. For example, each interview will differ, with open questions and different structure. Biases interdependent to me, as an interviewer, and the interviewee may occur in aspects of language and appropriateness of questions. Moreover, trust is important. Where the interviewee is comfortable and have high degree of trust, the interviewee will give better and full answers and not withhold information (Saunders et al., 2012). I have consciously been avoiding such pitfalls throughout the whole research process. From the first time I made contact, until the end of the interview. Building trust from the very beginning as well as adjusting my way of speaking and behavior to be utmost professional and according to how the interviewees were.

I used the same interview guide for all the companies, with small adjustments and probe questions, during the interviews to be able to achieve some new insights. However, I still did my very best to keep the interviews within the themes and not diverge.

Another factor worth mentioning is the usage of audio recording and transcribing. Being recorded may have made the interviewee uncomfortable ending in the answers not being sufficient. However, the respondents said they have all helped student with their research previously and were used to this. Additionally, from the very beginning I explained that the answers will be strictly confidential and they will be kept anonymous. Through audio



recording and transcribing, I believe I was also able to reduce the chance of subjective judgments and interpretations done when analyzing.

I believe it would be difficult to get the same answers as I achieved, because the research is done involving human context and perception, however there is possible to achieve same results if the research is done carefully and thoroughly and with being aware of the pitfalls. I believe I have done my utmost to maintain the reliability of this research.

I believe the quality of this research has been taking care of with care and thorough preparation throughout the research process. Although as we can see, there are a few weaknesses such as degree of generalizability and internal validity.

#### **4.5 Ethics and moral codes of conduct**

There are a few ethical concerns relevant to this thesis. First of all, ethics refers to the standards of behavior that guide your conduct in relations to the rights of those who become the subject of your work, or affected by it (Saunders et al., 2012 p 226). In this sense, there can be ethical issues in all aspects of the research.

In my research I gained access to sensitive information about the companies, hence as a researcher, I had to do my utmost to stay within the moral codes. I was clear with my respondents about the purpose of the research and that they had all rights to stay anonymous. The participants were notified that they could withhold from answering any questions they would like to. I made sure that the participants were fully informed of what purpose the findings had and how these will be used. Furthermore, I briefed them of confidentiality regarding the findings. Moreover, I did my best to stay within the moral codes of conducts on analyzing the findings and stay away from being subjective or selective with the data collected. Therefore, I believe this research has been conducted within the ethical guidelines and moral codes of conducts.

## Chapter 5 Results & Discussion

In this chapter of this dissertation, I will present my findings from the interviews I have conducted. I will present key findings relevant to the topics mentioned in the theory section. Moreover, I will also present other key findings and knowledge that was discovered. I will maintain the structure of the theory section and present findings within the different topics in the same order. In the end, I will discuss these and put these findings in perspective.

### 5.1 2010 effects

The incident in 2010 where Liu Xiao Bu was given the Nobel Peace Prize has been given a lot of media attention the past few years. Some respondents were asked about this issue whereas other brought it up on their own. The general consensus from all respondents is that if a company is already established and have strong relations and networks, there are not much effects business wise due to the Nobel Peace Prize. On the contrary, they all believed that there have been some practical issues. The practical issue mentioned by all respondents was to be granted visa. There were issues regarding visa both for Norwegians and for Chinese. Respondent 3 explained that their Chinese contacts were not allowed to travel to Norway, hence they met in other places. Getting a visa became a long and more advanced process; however, it has improved a bit according to the respondents. Some other issues mentioned by the respondents were regarding permits and licenses. Respondent 4 believes that an effect of the incident in 2010 has made it more difficult to be financed through banks because they are strongly influenced by the government. Respondent 1 said that they experience that they get less help now than before.

Respondents believe that if trying to establish as a Norwegian company now, there may exist some issues because of this, in the case where the industry or company is strongly influenced by the government. For instance, “exporting now maybe difficult as a startup” as respondent 2 mentioned. Respondent 4 emphasized that this may be the reason why one of their product is banned in China and they are not allowed to export it into China. However, respondents believe if you have the right product to sell and there is a need for it, that it will work. Overall, respondents explained that their businesses have not been impacted by the China-Norway relationship.

There is not much one can do about this situation, one just have to work and manage accordingly. For instance, respondent 3 met their partners in other places. As we see, the respondents have experienced a few practical issues, because of this incident and some difficulties they believe might be associated to this particular incident, however, business wise, the effect of 2010 incident is low. From chapter two, we see that this view is supported, where most businesses have grown in China however, a few industries have had a setback. Moreover, the growth could have been higher if the situation was different.

## **5.2 Foreign Market Entry Mode**

The entry mode has been different from company to company and can be interdependent to many factors. However, there is consensus in certain things. Having a Chinese player who understands the Chinese way and have the right contacts has proven to be very important before and still is. Furthermore, this can vary from agent, intermediary, to hiring local people as respondents' companies have shown. Respondent 2 and 3 hired locally, while respondent 1 has been doing things independently and through distributors. Respondent 4 explained how they used agents and contacts to enter the market initially and today they have experience with joint ventures and also work independently. During the scope of time, they have all tried different approaches, where some have failed and some been successful. All respondents agreed having a Chinese player was essential before, however they believe it may be possible to do it on your own today and in the future, but to take things to the next level, achieving more and get a better understanding, having a Chinese player will be more beneficial and was strongly advised.

*“If we entered China today, with consideration of size of our company, we would have used the Wholly Foreign-Owned Enterprise approach”* (Respondent 1)

### **5.2.1 Strategies: Joint venture, localization, long-term orientation**

Respondents have the same view on Joint Ventures. It has proven to be very difficult to maintain and gain profits from in the past and still is. Respondent 2 said, “Never do it” while respondent 4 explained how one joint venture was quickly dissolved after it was established and the one currently existent, have been having issues and it is not going as planned. When asked about why the joint ventures failed or not going as good as expected, respondent 1 believed “we did not share the same interests” and respondent 4 was not sure of the main reason, however, believed there were mistakes made from both sides. He also said that there were lack of capabilities and they were mostly capable of doing the partners job better

themselves. One approach, which many respondents spoke highly of, was to become more local. As their companies' strategies aim to be more local, to have the most suitable people working in the environment they have the best understanding of. Respondent 2 suggested a strategy where you have a combination of both business cultures in the beginning, you have a foreign leader who can show how things are done, and when confidence about the fact that the Chinese can do the work, having a local leader will be more suitable and affordable. Another approach is to teach the leader how things are executed, by having him at the main office for some period and then send him back. This approach has shown to be highly beneficial for respondent 3's company where a local manager was trained at the main office for two years before he returned.

Establishing a representative office initially to get a better understanding and be better prepared is a practice used by several respondents and their companies. This has been a good base to lie down before doing business, thus one can gain more knowledge about consumers, market and understand how things work. Additionally, one can build relationships and do marketing through the representative office. Respondents believe this is a good approach to enter the market. Moreover, all respondents agreed on the fact that entering China should be with a long-term oriented perspective and that patience is a vital attribute to have in mind. Their companies have also shown this where they started early and have successfully been operating for decades, except for one company.

### **5.2.2 Firm size, products, and technology**

Respondent 1's advice is not to enter China if the company is small. "It should at least be middle-sized or larger because the risk is very high" (Respondent 1). The explanation was that the competition is fierce in China and one needs resources and time, which a small company may lack. Respondent 4 believes if the company is small, one needs to have a good strategic partner to successfully establish in China. The pitfall explained by respondent 1 in this matter, bearing in mind the products his company exports, "do not go with the biggest company and be naive, if your product becomes just 1 out of 100 for them, they may not give it the attention it needs to be attractive in the market and among consumers." Respondent 3 had a more positive approach and believed that since technology has improved, and one can go along way with e-marketing and effective use of internet. A combination of a good product and effective e-marketing can make things work. Throughout the interviews, the importance of products was given a lot of thought. One needs to have a good product and there has to be demand for

it to achieve success. Respondent 1 believed “if you cannot compete on having a good product or price, then you should just forget about it.”

### 5.2.3 Timing

The essence of timing was observed throughout the interviews where several respondents emphasized that the time was right for their company to enter China, the potential was there and the timing was right. When asked for the reason to enter China when they did, they also mentioned that they saw the potential profits and wanted to be a part of it. Moreover, respondent 1, 3 and 4 explained how they followed their international customers and initially worked with them and focused on them. This was a successful way of establishing a base at the time they entered. Many of them still do today, because it is still more difficult to reach out to Chinese customers and adjust to them, although it has become easier. Furthermore, the respondents emphasized that entering early and building networks over time has proven to be very successful.

### 5.2.4 Competition and long lasting disputes

Another aspect observed was that the competition from local competitors is much fiercer now than before, and since these competitors now have a better understanding and better established networks, one should be aware of this if one wants to enter the Chinese market. Respondent 1 emphasized that “the competition is substantial and strong in China, so one should really think twice before entering if the industry one is intending to enter already have competition.” This is important in case of the business not being as successful and in case of closing down the business. Three respondents experienced a long expensive dispute with lawyers when their operations were shut down in China, this being dissolving joint ventures for two of them and completely shutting down operations for respondent 2. The risk is present, hence this is something to be aware of before entering.

### 5.2.5 Leaving China

The reason for shutting down operations for one company was many. There were a lot of things going back and forth where they had some difficulties evaluating whether to buy or lease land, and build their factories. Later on, they had the opportunity to acquire another factory instead of building it and then they lost the bidding for it. They never fully established, and after three years of trying to do so, it resulted in shutting down the whole

investment. There were some changes in the main office too, and they decided to invest in other places instead.

### **5.2.6 Training**

One approach that was mentioned by several respondents was the importance of teaching and emphasizing your own business culture. Whatever industry or type of entry mode is chosen, there will be some Chinese people as workers, agent or leader of a branch or as a partner. Moreover, in many cases, teaching them and including them in what the business is about has proven to be an effective and successful strategy according to respondents 2 and 3. Respondent 4 explained how their previous joint venture was unsuccessful and they experienced that they could do things better on their own than what the partner did. Hence, their main goal is to work independently in China today and, I was told, that their current joint venture was more to gain market access. However, he also believe that by investing in training, outcomes will generally be more beneficial.

### **5.2.7 Governmental influence**

“The governmental situation in China is something to consider before entering the country” as respondent 3 acknowledged. The reason, as explained, is because things can change suddenly due to a decision made at the top and everyone else have to abide by these. The respondent explained how recently all the main offices of various shipping companies had to move their main offices from Beijing to Shanghai because the government is trying to make Shanghai the business hub of China. Thus, one needs to continuously be updated on the governmental situation, to be ahead of and prepared for change in circumstances.

### **5.2.8 Control**

Respondents show that they treaded carefully using representative offices and having greater control initially. They have, over the years, become better established and trained people to gradually become more local. Respondents 1 and 4 were both in charge of operations before, however, have now returned and explained how their companies are becoming more and more localized. Both respondents explained how currently they have only one expatriate left in charge but believe this will change soon. In addition, respondent 4 mentioned how if you are going in an joint venture it should be 50/50 and added that you should hope for a “sleeping partner” to you have more control. Thus, emphasizing that one should have as much control as possible to be able to things the way one wants to.

## 5.3 Discussion of entry mode and the challenges that comes with

### 5.3.1 Various strategies

Theory shows that there are many ways to enter a market and be successful. This is illustrated by looking at the different companies, which have been chosen to be interviewed. They have all experienced difficulties to some extent entering and operating in China. The perspective on joint ventures from theory is that it was the commonly used approach to enter the market in the past. However, the outcome of a partnership has been difficult to predict and joint ventures have been both successful and failed. Thus, in recent years companies have implemented different approaches such as establishing as a wholly foreign-owned enterprise. The results from the interviews supports this view. We see that many of the respondents have tried to work in a joint venture, however, they have been dissolved. In addition, although currently some of them have paired up in new joint ventures, this is not their main strategy to do business in China. However, industry itself is an important variable when it comes to selecting mode of entry, as we see, for example, online shopping has increased intensively in recent years and in this industry, a WFOE-strategy may not be the most suitable for more profits.

All the respondents believe that working independently is their main goal and explaining that if they had started today, this would have been their approach. Throughout the interviews, the observation was made, that the four companies took into consideration the four factors indicated by Agarwal and Ramaswami (1992): resources, control, risk and profit, before choosing the entry mode. Moreover, these factors were some of the main factors discussed and brought up during the interviews. In addition, as illustrated in the theory chapter, their strategies and choices were influenced by institutional, external and internal factors. The research found, that the institutional factors were the most influential in the past when respondents' companies entered, however it has changed today as China is becoming more globalized in their way of doing business. However, their main advice when entering China is to have a Chinese player who works in your favor, has a great understanding of how operations are carried out, and has good ties in the market and politically. In addition, if entering or operating through a joint venture, one should choose the partner wisely and be in control.

### 5.3.2 Long-term orientation and product

Furthermore, one should tread carefully by starting slowly and have a long-term orientation with for instance, establishment of a representative office. This is supported by theory where it suggest that China is a demanding market and one is only profitable in the long run. One may argue that some companies are able to become profitable in the short run, but these may only be a few exceptions and their products or services may be one of a kind, hence making it possible. The respondents believe the same, where they strongly emphasized that the product itself has to be good and in demand to succeed.

### 5.3.3 Size of firm

In chapter three, it was illustrated how both large companies and small companies have advantages and disadvantages due to their size, and how firm size affects foreign direct investment positively (Buckley and Casson 1976; Cho 1985; Caves and Mehra 1986; Kimura 1989; Terpstra and Yu 1988; Yu and Ito 1988). One needs time and resources to be able to expand into another country, thus making a large company better equipped to successfully enter a new market. However, small companies have the advantage of being flexible and adaptable and respond quicker to changes. Thus, large companies may lack capabilities to respond to changes, and small companies may not have the time and resources needed to expand. The respondents believe that it would be difficult to enter China as a small company and some advised that, as a small company one should consider not entering. However, with technology improving and the right product some believe it is possible for small companies to enter, although this goes for the large companies too. The respondents believe that one should at least be a middle-size company or larger. This is because of the high risk in place.

### 5.3.4 Competition, localization and training

In the past, when China was less developed, the foreign companies held many advantages when entering the market. Today, the situation has changed and domestic companies are becoming bigger and more competitive, making the market much tougher for foreigners. The respondents in regard of their opinions and experience support this. They also believe that one should be careful and be well prepared before entering China because the competition from domestic companies is much fierce now than before. Moreover, they have a better understanding of the market and stronger networks, thus foreign companies have fewer advantages today. The approach that has proven to be successful for the respondents companies have been to localize their operations. Some companies are already fully operating



with Chinese people in every aspects of the company and some say that this is what they will be doing soon. Furthermore, this is done by investing in training, which the respondents believe is a good investment worth spending on.

### **5.3.5 Control**

In the theory chapter, it was argued that higher control can be the key to success (Gatignon and Anderson 1988; Isobe, Makino and Montgomery 2000). Furthermore, more control also correlates with higher risk as well as better protection of resources. However, the research shows that the companies are willing to take a higher risk to be able to have greater control in decision-making and operations. Respondents show through their viewpoints that this is the better approach when choosing a strategy: to have greater control. However, when better established in the Chinese market, we see that one has to adapt to different situations, for example, General Motors gave up control in their joint venture to expand into new markets, gain more profits, and higher market share in other industries.

## **5.4 Governmental and legal challenges**

### **5.4.1 Different views**

When asking the respondents about governmental challenges, everyone believed these are less today than in the past. However, they believed these are still there and “with a political climate like China’s you have to know how to play the political game”, according to respondent 3. Some respondents believe that there is a difference in governmental influence between industries and companies, which are privatized or still heavily governmental. It is to some extent easier to do business in the privatized ones according to respondent 1. However, one respondent disagrees with this saying that even now, when China is more privatized, the government is still majorly in control and plays a large part in decision-making. Three respondents shared an opinion on the fact that China will be less bureaucratic and centralized and more in line with international standards in the future, due to the global influence on China, thus the governmental challenges becoming less. Another opinion was of a different approach where the respondent believes that it may be less, but they will always be present until the governance style changes.

### **5.4.2 Corruption**

All the respondents mentioned corruption as an issue in China. The respondents believed their own companies have not experienced different types of corruption in any particular way.

However, everyone believed one should be highly careful in regard of corruption. There has been a crackdown on corruption as Respondent 4 explained. He explained that there has been a crackdown on indirect corruption and bribes such as facility payments, excessive entertainment and gifts where a lot of capital is spent. By facility payments, he meant things such as people getting the best houses, cars and golf club memberships that the company pays for and banquets with luxurious dinners. However, the gifts and entertainment can just be a way of getting to know each other better and be a way of building trust and relationships. Moreover, it is a common practice with gift giving and entertainment across the world, however respondent 4 believes it is more excessive in China. This was mentioned by respondent 4 and he also linked crackdown on these, to the fact that there will be less space to build relations compared to before. However, respondents believe the corruption situation has been improving and recent crackdown on corruption in China will continue and improve.

Another perspective regarding the governmental situation in China was shown through respondent 3's perspective. According to him, it is beneficial for companies that the visibility of how the government is, is clear and easy to see to some degree. This, as he explained, is beneficial or more straightforward compared to other countries where it is less visible to see how the government is in charge, and acts of corruption. Since it is more visible, it is easier to behave accordingly and one is more aware of it, to some extent. Respondent 1 said something similar explaining that "in other countries you may be asked to put money under the table, however in China you can bribe and even get a receipt for it."

### **5.4.3 Bureaucracy and ties**

When it comes to getting access to things such as permits, licenses and other paper work, respondents said they did not experience this as a big challenge in their industry, however the advice is to have that in order in advance and do this carefully and properly. Moreover, it was noted that most respondent's companies had some type of strong connection to government officials through own employees or intermediaries. In addition, several respondents emphasized the importance of such connections. Apart from respondent 1's company having a product banned and respondent 4 explaining how there have been some issues getting financial support from banks, there have not been many governmental issues for them. In addition, respondent 1 and 4, as aforementioned, affiliated this to the aftermath of 2010 incident and were not entirely certain of the exact reason for these difficulties they have experienced.

#### 5.4.4 Institutional voids

Institutional voids is seen as a challenge by the respondents, despite the fact that it can in some situations be opportunities. Respondent 4 believes that the voids have affected people in China and that they have not been able to keep up with the rapid development. This is experienced with Chinese employees where many of them need a lot of training, according to respondent 4. Another example was given by respondent 1 when his company was trying to get out of a joint venture. He explained how the judicial system was weak and in favor of the Chinese partner in the joint venture. When they were in court, he experienced that things were not done by the law. It became an expensive and time-consuming case, but they managed to break out of the joint venture in the end. He believes that it will get better in the future, but there is a long way to go. The other respondents support this view. Furthermore, respondent 1 believes that the strong focus on connections when doing business is partly a result of the institutional voids (in addition to culture and history), and that *guanxi* will become less important when institutions become stronger with time.

#### 5.4.5 Intellectual property

There exist Intellectual property challenges in China. All the respondents believed they had experienced this to some extent. In company 1, they experienced that their employees had quit their jobs and started their own companies, producing products very much alike their own. Respondent 2 believed this is a problem that will stay in China and associated this to the culture. The Chinese perception is: to be able to “become as good as the master, one has to copy the master.” Thus, perspective on intellectual property is very different in China compared to Norway. When asked about how to prevent or avoid this issue, the strategies explained was to withhold key information from employees or not give them full access to all information. Another approach they recommended was to focus on training and teaching them about their business culture and views to prevent IP issues. Moreover, respondent 2 said, “everything can be copied; it is only a matter of time. The one thing that cannot be copied is the organization itself”, showing that the key to success and overcoming IP issues lies in an efficient well-developed organization. Respondent 1 believes one has to think of this as a compromising thing or given feature when entering China, which is difficult in their industry to work against, despite their efforts of doing so.

### **5.4.6 Sustainability**

Another challenge that was brought up by the respondents was for the sustainable development in China. In recent years, the focus on environment and sustainability has become more important and this implies for China too. With regard of the strong focus on economic growth compared to human and environmental development in China, respondents mentioned the pollution and environmental issues China is facing. Furthermore, China has become stricter on rules and restrictions when it comes to these things because of for instance, the pollution levels in Beijing. Last year, in 2015, the level reached beyond the scale being all time high in the history (BBC News, 2015). Thus, foreign companies need to have “a stronger focus on being more environmental friendly and have competitive standards for the employees” according to respondent 3. Respondent 2 also emphasized this view by explaining how human development in regard of still many poor people in China and environment, being two challenges one should be aware of, and work in line with.

## **5.5 Discussion of governmental situation and challenges**

### **5.5.1 Bureaucracy and ties**

The government system in China is different compared to Norway, thus making it challenging to apprehend and work in line with. It is highly bureaucratic and the transparency level is low. In addition, bribes and corruption is a concern, which has been present without improving significantly over the past decades. The respondents supports this view and emphasizes that although circumstances have improved since they entered one still needs to be aware and understand how things work within the rules of the political system. There are disagreements in the matter of how much influence the government has today, since two-thirds of the companies are privatized. Some respondents believe it is less while some believe the government is still mostly in charge. Some respondents believe it is slightly easier doing business with the privatized companies or in a privatized industry. There are also uncertainties on whether the influence will become less in the future, where some believe the impact from the rest of the world will result in less governmental control and some believe that it will not.

In the theory chapter it was described how it can be difficult to achieve access through licenses and permits in different situations, however, respondents did not experience this. Apart from one respondent who experiences a ban on one of their products. On the contrary, most respondents illustrated having strong governmental connections, which may be why they have not experienced many difficulties. Respondents believe one should be well prepared

regarding the paper work that is needed. The reason why, is because of strict rules and strong bureaucratic system it can get out of hand, be expensive and time-consuming if such things are not well taken care of.

The importance of a Chinese player who understands and knows how to work along the political system is very high according to the respondents. This is important due to the risk of uncertainty discussed in the theory chapter, and it makes it easier to avoid legal and political challenges. This has been proven by the respondents who believe they have not faced many governmental challenges because of the strong networks they have. Moreover, according to previous research, political ties' impact on performance have been positive, negative and in some cases, there have been no direct effect. Findings of this paper indicates that political ties have positively affected firm's performance and thus strengthens this view. Although these political ties may lead to higher cost and constraints, findings shows that this is still preferred and is seen as a competitive advantage as long as one is capable of avoiding the pitfalls illustrated in the theory chapter.

Due to the transition China is in, between reliance on informal and formal institutions, it is difficult to comprehend what foreign companies should rely on and how to play by the rules, when they are constantly changing. As respondent 1 explained one has to continuously be ahead and aware of these changes and try to predict these. Moreover, although in transition, findings shows that reliance on informal institutions and networks is still high, especially governmental ties and networks within the value chain. On the contrary, currently reliance is less on building networks and partnerships with other companies compared to the past.

### **5.5.2 Corruption**

Various indicators shows that transparency is low in China and corruption is high although there has been a slight improvement in the past decades. Thus, according to these global indicators there exist corruption in China. The corruption can be in different places and levels, everything from governmental to business. The respondents themselves believe they have not experienced corruption and they are part of anti-corruption agreements to fight against acts of corruption. One should be aware of the situation and be careful when it comes to corruption in China, according to the respondents. One key finding, which several respondent mentioned was that the corruption is more visible in China compared to other countries. One may argue of this is good or bad or easier to adjust to, however corruption is still an issue in China, which theory and indicators shows that many companies face. Moreover, one may argue if the

recent crackdown on corruption has been sufficient, because it has been a very slow progress. Additionally the corruption is in place in the government or through government officials, so one may argue whether the corruption can actually improve without a change in the government system or not? Because of these uncertainties and a government, which is in control and corrupt, one should be precautionary when doing business in China.

An important variable to consider with regards to corruption is perception. This thesis illustrates how - from a Norwegian perspective - there appears to be a high level of corruption. On the contrary, what is seen as corruption to those outside China may be perceived differently by the Chinese. For instance, the judicial system favoring the Chinese counterpart may be for protection and to give the Chinese counterpart the upper hand. One may argue that this is the case in developed countries too, where domestic firms have more beneficial laws and regulations compared to foreign companies who are faced with trade barriers and high income tax. Thus, from a Norwegian perspective and the findings, corruption in government and business is a challenge for foreign companies. However, the view on this matter may be different from a Chinese perspective.

### **5.5.3 Institutional voids**

The institutional voids have been created in China because of a strong focus on economic growth while the environment, people and other institutions have not been able to keep up or not been given the same focus. These voids can become opportunities, but are also challenges. The respondents have experienced some judicial issues because of these voids and they believe it has affected people and the environment's sustainability. However, with a stronger focus, like China are having now on sustainability, respondents are positive that things will become better.

Now, an emerging market or developing country can have many traits of a developed market (Rottig, 2106), thus not all institutions are weak or absent. Moreover, one may question whether the institutions questioned are weak or strong. This paper finds that in case of formal legal institutions, they are weak, due to how these have handled different cases such as disputes. Moreover, the legal institutions are not interdependent but influenced by the government. The government too may be a weak institution, perceived as strong (Mertha, 2012). The reason is, due to the low transparency and corruption and bribes involved with the government. This is also indicated by the respondents, who believe one should be aware and careful when doing business in China, and that corruption is present in the government

system. It is the government's choice to focus on economic development rather than the social and environmental development, however when this leads to corruption and actions taken for personal gains, one may perceive the government to be a weak institution or that there exist institutional voids in the government, as argued in this paper.

#### 5.5.4 Intellectual property

As seen, there have been other challenges that the interviewers mentioned. The respondents believe theft of intellectual property is a big problem when doing business in China and the possibility of copying is present in most industries. The respondents believe one can overcome this challenge through keeping key information about products and services to themselves and through proper training, teaching, and including partners and employees. By doing this, one can reduce the chances of theft of intellectual property. Moreover, one may protect IP through legal actions such as patents and licenses, however respondents believe these are not as effective as they are in Norway or other developed countries. The Chinese perspective on copying can be interconnected to their culture of Shanzai as described in the theory chapter, and this view was also supported by the respondents. One respondent believes that in China everything can be copied, it is just a matter of time and the one thing that cannot be copied is the organization itself. Thus, creating a unique organizational structure and culture may be the best solution to overcome challenges of intellectual property. However, there are many large multinational companies, such as Apple and Microsoft, still in China despite their products being copied. One may argue that the exposure of these international brands through copying has, in recent years, or may, in the future, increase their profits and has already proven to increase market share, as a result of the increasing purchasing power of Chinese consumers who desire the real products because they are now affordable.

The questions remains, should companies invest in fighting IP challenges or, rather, use these challenges - to their best of ability - as a strategy to achieve greater market share, profits, and thus success in the long-run?

#### 5.5.5 Sustainability

There have been concerns regarding the environment in China, and whether the nation can keep up with the economic growth or not. As a result, this has made it more strict for companies to operate in China. The way corporate responsibility and ethics has become more important in the world, it has also become more and more important in China too. Thus, one has to be aware of this before entering China.



## 5.6 Cultural aspects and challenges

The respondents mentioned many different challenges and aspects of culture to be precautionous of. Moreover, there were different views regarding perspective on cultural challenges and differences, and how it is today and how it will be in the future. I will here present some of the key findings regarding these, and illustrate the different perspectives.

### 5.6.1 Are cultural differences a challenge?

According to several respondents, many people who does business in China have read some book regarding cultural differences and how to behave, thus respondent 4 believed that it is not the most difficult part to adjust to the culture, if you have awareness to some extent. He believes that you may encounter more difficulties in other countries, showing that there might be ‘unseen difficulties between two neighboring countries, such as Norway and Sweden, since one may take cultural differences for granted’. For instance, this was mentioned by several respondents, since many people are aware of the hierarchy system in China, it is easy to adjust to. Respondents believed attributes such as being open-minded, humble, and sticking to “good old Norwegian common decency” goes a long way. Respondent 4 believed one should not make the cultural differences a bigger problem than it is and that since more people are aware of these things, and also things becoming more internationalized the emphasis should be less. In his words, “it is easier to be prepared and precautionous of the differences because the differences are more visible.” “It is easier being a foreigner today” said respondent 3 and emphasized that they have done their utmost to avoid cultural differences and that it is quick and easy to adapt to the norms on how to behave.

### 5.6.2 Guanxi

All the respondents mentioned Guanxi. It was explained that there are many layers of connections and guanxi, and that “as a foreigner you will never be able to achieve guanxi as a Chinese” (respondent 2). Several respondents believed guanxi is affiliated to lifelong relations built through work and student life hence, being impossible for foreigners to achieve. Respondent 4 explains that the country has a relationship culture, thus it will always be present, however he believes cultural challenges will become less because of the influence on China from rest of the world, and the Chinese themselves becoming more adaptable to other cultures. However, he still believes “not guanxi, but relationships will still be essential in China, and you have to build trust over time and have connections and people who knows you.” Every respondents has this perspective on relationships when doing business in China.



Respondent 3 believed “personal networks are important because it can be a good gate opener into the market, however things in our industry is becoming more institutionalized.” It was strong consensus regarding this perspective.

*“The more you build a long term relationship and trust, the easier it will get”* (Respondent 3)

### 5.6.3 Hierarchy

During the interviews, some examples of cultural differences were mentioned. The one that every respondent mentioned was the hierarchy system in China. They had all experienced this and believed that this might be weird or different for Norwegians, however it is normal in China and it is not difficult to adapt to. Respondent 1 explained how he perceives Chinese people to float in the middle and be a part of the herd instead of being ahead or lagging behind. This could be used to adjust to the cultural differences. One should try to fit in the herd instead of standing out too much or not at all. Other examples where to receive and give business cards with respect using both hands, and they have all experienced the power and decision making being centralized to a few at the top compared to how it is in Norway. However, some respondents believe this is something they see in other countries as well and it is not a big issue, just different and easily adaptable.

### 5.6.4 Future perspective

When looking at the future regarding cultural differences, most respondents believe this phenomenon will wither with time, but it will take a long time. Respondent 2 illustrated that the cultural differences will remain as a result of the government style, and that the “differences will become less when the government style changes, if it changes.” Respondent 1 believe that “relationships and guanxi is important because of institutional voids, however it will become less important in business when institutions are better, guanxi will become less important I am sure of it.”

### 5.6.5 Maintenance

One thing respondent 3 pointed out was that it is not sufficient to just build trust, but one has to maintain it. However, maintaining it can be quite difficult sometimes. The example he gave, was that since the decision making power is with the person at the top one has to keep a good relationship with this person. However, in China and also over the years, the CEO or the one with authority, changes, thus, one also has to be aware of who will be the next in charge and keep good relationships to the new leaders. Hence, making it difficult to maintain

relationships continuously with many potential leaders in the future. Respondent 4 emphasized this view as well saying that “it is important to be close to the decision maker and maintain trust and relationship with the right people.”

#### **5.6.6 Diversity**

Several respondents made another key point regarding cultural challenges. Respondents agreed that one should be aware of the cultural differences within the country, because of the diversity and size of the country. Things will differ from south, east, west and north and one should be careful and precautious of looking at China as one whole market or imply the same things in every place. Furthermore, Respondent 1 believes that the cultural challenges are the same for most countries entering China and in Norway’s case; the only difference is the effects of the Nobel Peace Prize incident in 2010.

#### **5.6.7 Face and quality**

Respondent 4 discussed the concept of ‘face’. He associated this to something that can help in different situations. He believed that since people do not want to lose face and cares about one’s face, it could prevent acts of corruption. He also believes that face can correlate to quality. Many respondents brought quality up as an issue, both in terms of products and services. They believe there is an issue that the perception of quality is different in China compared to Norway and other developed countries. Thus, one may experience their Chinese partners or employees not being able to deliver the same quality as desired. Respondent 4 believe that the concept of face can to some extent help to improve quality where no one wants to lack skills or lose face as a result of not being able to provide what is required by them. As examples, the respondents pointed out choosing and bringing the right partners to the table as well as production and services. The best way, believed by many respondents, to achieve and improve quality is through training, supervision, and including the Chinese partner or employees. This can however lead to another challenge that was discussed, which is regarding intellectual property. This will be discussed later on.

#### **5.6.8 Language**

All the respondents mentioned language as a challenge when doing business in China. On the contrary, they also believed that there are more and more people communicating in English in China. However, they still emphasize that Chinese is still very important. Respondent 3 believes that “you can manage with English in China today, however to be able to take things

one step ahead, Chinese is key.” Every respondent said that they use Chinese intermediary or own employees in negotiations and communication. Respondent 1, who has lived in China for several years and knows the language to some extent, still preferred to have a Chinese employee present during meetings. He explained that it was more as if he is brought to the meetings than him bringing the Chinese coworker. Respondent 2 explains how sometimes he experienced that some things was lost in translation using an intermediary. He gave an example where he was in a meeting where he wanted the intermediary to be a bit tough and straightforward however, it appeared that to not lose face or be disrespectful, the intermediary was still communicating respectfully, and thus he believed his message was not being received, as he wanted.

In the respondent’s words, the language is very complex, it can be difficult to understand, and misunderstandings occur. Respondent 4 brought up the concept of ‘no’. He explained how one should not be naive and take courtesy as nothing else except that. He gave an example where he would often experience that when he had asked about deadlines and other operations with time constraints that he experienced that, because they do not say no directly it caused delays, misunderstandings and frustration. Moreover, when they did say “no, problem” he said he had a rule of thinking that “no problem” is more like “no, it could be problem”, as he had experienced this often. Respondent 4 said, “it is not easy for them to say no, which makes it difficult to understand them”. Respondents agree on the fact that in the future, Chinese language will still play a big role in business and interactions. Respondent 4 believes that “even if their English improves, as the foreigner it is our responsibility to adapt to their language and culture.” Several respondents emphasized that showing commitment and interest goes a long way in China.

#### **5.6.9 Chinese businessmen**

During the interviews, every respondent mentioned one thing about Chinese businessmen. The understanding was that the Chinese are exceptional negotiators. Respondents used words such as “tough” and “clever” to describe how they are. Respondent 1, 4 and 2 explained that they may seem kind and friendly, but do not be naive when negotiating with Chinese, “you will regret that” (respondent 2). Respondent 1 gave an example to explain his thinking. He said, “In China you can sneak in the queue and no one will say anything if you are good at it. The same way if you are able to trick your partner or someone you are doing business with, it is ok as long as you do it the right way.” All the respondents had this type of view on Chinese businessmen, that you should be careful during negotiations because “you might end up

somewhere you never imagined” (Respondent 2). Moreover, the respondents believed that the Chinese are very price oriented and following international standards of conducting business and negotiations.

To sum up how to best engage the cultural differences and challenges the consensus from all the respondents is clear and can be described with being humble, patient, adaptable and show commitment and build long-term trustworthy relationships. Key words used by respondents to efficiently avoid cultural challenges were: be professional, be flexible, openness, long term oriented, be precautionous.

## **5.7 Discussion of cultural aspects and challenges**

### **5.7.1 Past, present and adaptation**

From the theory chapter, the importance of culture has been illustrated and how it can be a good asset for a company when interaction with another culture is done right. In terms of cultural dimensions, we have seen that there are many differences in Norwegian and Chinese culture, notably in the distribution of power and in social relationships. These differences may create difficulties when interaction occurs and one needs to have an in-depth knowledge of the other culture, as well as their own, in order to achieve a better understanding, and thus be better prepared. However, findings show and support the criticism of the cultural frameworks’ scope and usefulness. All respondents questioned had different perspectives regarding the cultural challenges. They all acknowledged that there are many differences, however many believe that it is not as difficult to adapt to as one may think. Additionally, one should not make cultural differences too big of a problem. The advice from the respondents were to be open-minded, humble, and professional and stay within common courtesy. The respondents believe that since there exist big differences, many people who will be interacting with the Chinese will prepare themselves more in-depth by reading books and being more aware of the differences and try avoiding them.

### **5.7.2 Guanxi**

Guanxi is a defining part of Chinese culture, which affiliates with interpersonal relationships between people with continual exchange of favors. One builds guanxi through time and trust by exchanging favors and by achievements. On the contrary, one may lose guanxi when one acts in ways that harms the guanxi. It is important to maintain guanxi through continuously exchanging favors and act in favor of guanxi. The respondents describes guanxi as something

built and acquired throughout your life. They believe guanxi is important when doing business in China however; acquiring guanxi is a difficult task, which foreigners may never fully overcome. Respondents explained that there are different layers of connections and relationships and foreigners are not able to become a part of the inner circles, even if, for instance, they are fluent in Chinese. However, the emphasis on building trust and have the appropriate connections is strong from the respondents, because they believe that China has a relationship-based culture. One can acquire the benefits of guanxi in a way where one hires Chinese people or have partners who have strong connections. Furthermore, the advice is to build these connections over time, be patient and maintain these connections once made. Thus, strengthening the view of Tong (2014) that maintenance of guanxi is important. One should also not assume that what works in one place in China might work in another, because of the size and diversity of the country. The cultural differences within the country needs be accounted for, and one should be precautious according to the respondents.

Academics are uncertain of whether guanxi will keep playing a big role in business and whether the culture will remain as it is or wither over time. The respondents believe guanxi will become less important over time, but it will still take a long time. Another perspective is that things will change slowly but mostly be the same until the government style changes. On the other hand, Chinese people travel more and more, thus respondents believe that they are getting to learn about other cultures rapidly and with time this will help making cultural challenges less. Respondents believe that the impact from rest of the world will be more significant and affect the business environment. We can already see that, since the respondents mentioned how the Chinese are highly price oriented when doing business and they see that things are based more and more on international standards, thus less emphasis on guanxi. My findings thus far do support the views of the researchers - who argue that the effect of guanxi will reduce in the future - mentioned earlier in the paper.

### **5.7.3 Face and quality**

Other aspects of the culture introduced in the theory was the concept of face. This can be associated with one's dignity, self-respect and prestige. One can gain and lose face depending on one's actions. Respondents believes that the fear of losing face can be beneficial in a sense that it can prevent people from corruption and making people do their best. Quality or lack of quality was mentioned as a common issue experienced in China through previous literature, and the observation shows that the fear of losing face can influence quality in products and services positively. However, this was just a theory, that one respondent had during the

interview. The picture is painted differently in the theory presented earlier in the thesis, as we saw that, despite emphasis on ‘face’ in China, there still exist corruption issues in China, both in the government and business.

#### **5.7.4 Language**

Language is a challenge that is present as soon as one approaches a foreign market. Perceptions and understanding is different from country to country and between different cultures. The respondents have overcome this challenge by mostly using their own Chinese employees during meetings and interactions. Although some misunderstandings may appear and some things may be lost in translation. More and more people speak English in China; however, Chinese is still preferred. Additionally, even if one speaks Chinese it is advised to let a Chinese coworker or a Chinese player do the talking, because the language is complex. Respondents believe that Chinese will still be used in business in the future and one needs to adapt to this because it is, as the foreigners, our responsibility to adapt and show commitment.

## Chapter 6 Conclusion and final remarks

In the concluding chapter, I will draw the conclusions and have a brief summary of the different challenges. Moreover, I will give an overview of this thesis with discussion of limitations of this research. In the end, I will give my suggestions for further research.

### 6.1 Conclusion

In this thesis, I aimed to investigate which governmental and cultural challenges, as well as challenges faced on entering China, Norwegian companies face and how to overcome these challenges. The investigation was conducted through a look at theory and previous studies and conducting interviews from four companies. An analysis of this information was made to draw the conclusions. The thesis question was:

*What governmental and cultural challenges face Norwegian companies on entering and doing business in the Chinese market and what strategies have they employed to overcome these challenges to maintain a competitive advantage and succeed in China?*

entering	governmental	Cultural
Size	Bureaucratic	Guanxi
Control	Institutions	Confucianism
Entry mode	Corruption	Language
Timing	IP	Quality
Norway –China relations		
Competition		
Sustainability		

*Table 6.1 Overview of main challenges faced by Norwegian companies in China*

There have been several things to consider before entering China for Norwegian companies. This paper concludes that if one is contemplating to enter China today, there may be some practical obstacles due to the Nobel Peace Prize incident in 2010. However, research shows that there have been minor issues for well-established companies. The mode of entry will depend on several factors, however, the important thing is to have the right Chinese players on your team, who understands the market and the political system. Entering China through a

joint venture was the common practice in the past, but with the rapid dynamic environment, and China's development, it is today preferred to do use different approaches such as WFOE, where one has more authority and control over the business and operations. Furthermore, the advice is not to enter as a small Norwegian company, if one cannot compete with exceptional product or price, this is due to the high risk and resources involved. Another reason for this that the local competition have become tougher than what it was in the past. In addition, the best way to enter and succeed is to have a long-term orientation, become local, with hiring Chinese, and give valuable training to the employees.

With a highly bureaucratic and corrupt government, this is still a challenge in China today. One should tread carefully and be precautionous not to get involved in corruptive actions, thus having a Chinese player who works in your favor is important. With these connections, things will also run more smoothly through the bureaucratic system. With institutional voids in the Chinese system, it is certainly a challenge. With weak judicial system, which can also be corrupt, and issues concerning the environment, one should be aware of these when entering and doing business in China. One may join anti-corruption agreements to fight corruption, however, it has not proved to be effective. With recent effort focused on sustainability and fighting corruption, things may be brighter in the future, however these voids remains a challenge today. However, perception is important. I found that this view on corruption was based on a Norwegian perspective and that the Chinese themselves may have a different perspective on this matter.

There have been many cultural challenges presented in this dissertation. The cultural challenges are present due to cultural differences, however results from research conclude that culture does not pose a significant challenge. Due to the differences, more people have awareness of these, thus they are able to adapt to the Chinese customs. Moreover, with the global impact on China, Chinese themselves have a better understanding of other cultures. Guanxi, the way Chinese have it, is not something one can achieve as a foreigner. However, building trust and connections is valuable and highly important when doing business in China. Furthermore, maintenance of the relationships over time is just as important, since Chinese are dependent on these unofficial networks due to weak institutions. China is diverse and the size of the country is large, thus one should expect cultural differences within the country and not imply same strategy in every place. Language remains a challenging part of the culture, miscommunications and not being able to convey what is intended, is a concern that will go on. However, the best way to overcome this challenge is to have Chinese employees or



connections who can break the language barrier when doing business in China. Overall, this paper concludes that culture will become less important or less of a challenge in some ways in the future, however language will remain a challenge one has to face and overcome.

The advice on how to engage effectively with challenges described in this thesis is to be long-term oriented, show commitment and build trust. In addition, one should have in mind to be humble, adaptable and patient.

## **6.2 Limitations of the study**

There exist a couple of limitations to this study. The first limitation of this study is the generalizability. Since the sample size is small and only related to a few industries, the generalizability is weak. However, the research has been conducted in the absolute professional way. Additionally, as a qualitative approach was used, the main aim was to gain a better understanding and new insights on a complex phenomenon.

The second cause of concern is that since the data collection method was semi-structured interviews with open-ended questions, the reliability may be questioned. It would be difficult to produce the same type of findings, however the procedure was carefully planned and thoroughly followed and I believe with proper guidance and effort, the procedure itself may be carried out well. Nevertheless, the element of this being a research dependent on human interaction and opinion, issues such as building trust and unforeseen biases may occur during interviews. Additionally, there may have been some effects or elements that this study has not been able capture.

Furthermore, the information gathered through the interviews may be limited in a way that interviewees have withhold information or have been biased. The biases may have occurred from the interviewees or from me, as the interviewer. It could have been more preferable to interview several people from same company or carry out research over time where one follows companies from the decision of entering until they have established and been operating in China. However, this would not have been possible within the timeframe of this thesis.

Aforementioned limitations may have weaken the quality of this thesis, however I would argue that, after carrying out the research as thorough as possible, the insights and information can contribute to a better understanding and helpful insight to this matter.

### **6.3 Practical implications**

This study's findings support previous literature on this topic, thus it is an extension of previous theories. Moreover, some findings shed light on different perspectives through a different lens. For instance, less importance on cultural differences due to the fact that more people are aware of these, because of cultural differences being large. Furthermore, this study is a good tool for better understanding for companies already in China or planning to enter China.

### **6.4 Suggestions for further research**

I have chosen interviews as my data collecting method, but the research can be done using a different approach such as surveys or case study.

Additionally, I have written about Norwegian companies in the Chinese market from a Norwegian perspective. A study can be carried out on how Chinese executives and companies' perspectives are on doing business with global companies and how this is changing or has changed. For instance, further research can focus on issues such as corruption and how it is viewed from a Chinese perspective. Thus, it will give a broader perspective on both views, which could lead to better understanding for all parties. Moreover, the sample size can be increased or one may focus on start-ups, entrepreneurs, SMEs or companies from more industries.

I have considered the cultural and governmental challenges in my thesis, however, one may do a research on other challenges with doing business in China such as competition and logistics and through a quantitative approach for higher generalizability. In addition, one could further research on how best to solve intellectual property issues in China, as this thesis questioned in the discussion earlier.

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## Reflection Note

The main themes of my dissertation has been challenges and strategies in doing business in a foreign market. I choose to investigate how Norwegian companies enter and do business in China. China was chosen as the country due to its larger influence on the world again the past few decades and due to their great GDP growth. I conducted the research through semi-structured interviews with four companies, where three of them were still operational in China and one was not. Moreover, I focused on the cultural and governmental challenges affiliated with entering and doing business in China. The objective was to get a better understanding of this complex matter by building on previous theory and potentially gain new insights. Some findings supports previous theory and strengthens previous theories. However, with China's rapid development and the country being in transition I believe some of the previous literature was not relevant at the time of writing.

Findings shows that there are several factors influencing the choice of entry mode, with external, internal and institutional factors. There is no one size fits all when it comes to strategy, therefore, one needs to gain as much knowledge as possible, be flexible and adapt when choosing mode of entry. Furthermore, governmental challenges such as corruption and low transparency were detected as well as a highly bureaucratic government. In addition, findings shows concerns for cultural challenges, such as guanxi and cultural differences, but because of a more impact on China from rest of the world, this thesis concludes that cultural challenges will be less and are not a big problem itself – except the language barrier. Key ways to overcome these challenges in China for Norwegian companies are by building relationships with the right Chinese people and a focus on localization and investment in training. This thesis concludes that these, amongst others, proves to be a competitive advantage and an effective tool for overcoming several challenges.

## Internationalizing

This paper is about strategy in a foreign market, thus across borders. Therefore, there are several external variables involved. For the respondent's companies, primarily, they have to conduct their businesses in line with Norwegian and Chinese laws and regulations. Moreover. They need to follow international policies and agreements in their respective industries, i.e. shipping. The political environment with domestic and international laws is one of the least predictable and controllable force for a business. For Norwegian companies doing business in China, for example changes in interest rates and taxes are some variables they cannot predict

nor control. In the respondents company's case, this was illustrated through a high emphasis on having the right contacts to be ahead of these things and thus be able to adapt faster when changes occur. In this case, with China being in a transition, there are also forces such as customer and competition, with a lot of multinational companies as well as domestic ones the competition is immense. Furthermore, because of more competition there are more products out there, thus it is more difficult to stand out and keep your customer base. With more internationalization, the customer base also becomes more diverse and there are cultural differences companies have to adhere and consider as a force that can affect the business.

However, one may argue that with increasing internationalization, the world is becoming more alike - that is to say, in certain industries, customer preferences and cultures have begun to intertwine. For example, when it comes to technology, such as mobile phones and laptops, most customers have common preferences compared to in food and retail industry, where preferences continue to vary from country to country. Therefore, I believe innovation and adaptability are to key ways overcome this challenge. Now competition may not be seen as an 'international force', however, I argue that in this case it is because the competition is from across borders and a result of internationalization.

Technological development has become very dynamic the in the 21<sup>st</sup> century. Now, technological development brings opportunities and benefits such as efficiency and effectiveness. Moreover, it has been a huge part of internationalization making transportation and communication much faster. However, a higher dependency on technology can become counter effective in situations where technology requires an update or breaks down continuously and in some cases lead to higher cost. Moreover, from a socio-economic perspective where due to technological development work force is less required it has proven to be disadvantageous for people where they have lost their jobs. Additionally, technology can be a competitive advantage for firms. Since corporate social and environmental responsibility has become more important, I believe technology is an external force that provides both challenges and opportunities for companies.

## **Innovation**

In terms of new innovative thinking, products or services relevant to my thesis theme there is no overall innovative possibility. The thesis is related to strategy and implementation of it and this is a complex matter, which is adapted through influence of several variables as show in this thesis. However, the companies I have interviewed can certainly focus more on R&D and



become more innovative in their operations and products to become more competitive or reduce cost. The shipping industry is regulated through international laws and regulations, moreover the respondents from these companies explained during interviews how they have been innovative and worked to maximize profits in the past. On the other hand, there is always room for improvement within the company, to make processes faster and becoming more productive. I did not get information on how the companies works in terms how they run the companies within, as this was not a part of my thesis, therefore I can only make assumptions of how the companies can become more innovative.

One thing, which remains a challenge, is the language barrier between Norwegians and Chinese and I believe if a system or an app that simultaneously translates between the languages can become as good as an intermediary it may result in better communication. Additionally, if that is less expensive than hiring or using intermediaries. Moreover, in case of intellectual property issues in China, a better system for protection should be created. Some type of technology, which can easily identify the real and fake product. However, if these innovations are more expensive than how things are done today, then they lose the purpose.

## **Responsibility**

As companies from a developed country doing business in developing economies, these companies have a lot of responsibility. With weak institutions, it may be tempting and easier to abuse power to gain more profits in the short-term. As corruption is an issue in China and moreover, corruption in the government system with bribes, this may also lead to unethical conduct of business. It is company's responsibility to conduct business ethically for a better competitive and open market and for sustainable growth. One may gain more profits in the short term however; in the long run, it may not be as profitable when institutions become better. Additionally, relying on unethical actions such as bribes and corruption has a negative effect on innovation and other improvements. As a result, things move backwards rather than forward. Therefore, it is the company's responsibility to avoid these things and conduct business ethically.

Moreover, from an environmental and social perspective, companies have a responsibility too. First of all this is due to maintaining sustainable growth and development. With less emphasis on the social aspects as taking care and proper training for local employees, they do not operate on a morally correct level. One may argue that companies' main objective is to maximize profits and return on investment for shareholders. However, there are several

reasons to be proactive in the environmental and social perspective. Since corporate social responsibility(CSR) have become more important, by not showing this or doing this, one may get a bad brand image, which will results in less customer and less profits.

The same goes for the environment, which may be even more important. For instance, in China the pollution levels have risen and been worsening in addition to over exploitation of natural resources. This will eventually become unsustainable and backfire. This is the case in China and we have seen, that the Chinese government have put more emphasis on environmental friendly solutions and also more strict laws for companies regarding the environment. Thus, the pressure from outside sources such as the government and international policies makes the companies take more responsibility and conduct business more ethically too. With these things in mind, such as external pressure, negative impact on brand image, the best long-term orientation, which would also be the optimized option for more players, should be to take more responsibility and conduct business ethically.

Maintaining a good brand image through operating responsibly regarding the environment and social aspects can be seen as a competitive advantage. By taking responsibility of employees and give them proper training, this will lead to more productivity and efficiency and also result in a stronger organizational culture, which can become an competitive advantage for the companies. Moreover, this will lead to reduced risk regarding poor performance and not achieving their goals.

## 8. Appendix

### Appendix 1

#### Interview Agenda

##### **Research question:**

*What governmental and cultural challenges face Norwegian companies on entering and doing business in the Chinese market and what strategies have they employed to overcome these challenges to maintain a competitive advantage and succeed in China?*

##### **Main themes:**

entry mode  
challenges (governmental and cultural)  
institutional voids  
overcoming challenges, strategies  
competitive advantage

##### **Introduction (5 min)**

Introduce myself, the topic, and the interview process.  
Previously agreed terms of confidentiality, anonymity and audio recording  
interviewee's rights to answer and quotations  
offer to provide end result  
confirm themes and amount of time

##### **General information**

1. What is your position in this company? What are your responsibilities?
2. How long have you worked with the Chinese?
3. Do you engage directly with the Chinese or do you have an intermediary?
4. Why did you choose this approach?  
Why did you choose to do business in china?
5. What research and what type of methods did you use to analyze and gain insights about the Chinese market and china as a country?

##### **Entry Mode**

6. How did you enter the market? Why did you chose this approach?
7. Was it a long process? Why? how long did it take?

##### **Challenges**

8. Has the recent changes in the relationship between the Norwegian and Chinese governments affected your business in China?
9. What governmental challenges have you faced since you entered the market?  
Corruption? Extortion?  
Bureaucracy? IP issues? Permits and licenses? Copying? Contracts?
10. With the definition of institutional voids in mind, what are your thoughts about these voids in China? And how this has affected the Chinese market and if it has affected your business or operations in china?

11. What cultural challenges have you faced since you entered the market?  
Associated with meetings/daily operations/ decision-making  
do you think guanxi and relationships are important in business in China? Essential?  
Do you think they will still be in the future?  
Confucianism values have had a significant impact on business in China, to what extent have you felt this impact?  
Cultural dimensions? Do you see these? have they been of concern? Which one? Have they changed since when u first started? Do you think they are important or will be changed or remain in the future?
12. If challenges, what did you do to overcome these? What strategies have you used?

**Competitive advantage**

13. How have you maintained your competitive advantage in the business in China?  
How have you adjusted to the dynamic business environment in China?
14. Considering the governmental and cultural challenges, What would be your advice for other companies wishing to enter the Chinese market?
15. With your experience in mind, what do you think are the most essential factors to succeed in china for a company and as a person?  
How should one adjust themselves as a company and a person to be better prepared to enter and do business in china? What key features should a company and a person have to successfully enter and do business in China?
16. Could you briefly answer my thesis question?
17. Would you like to add something else? Is there something else you consider relevant?

## Appendix 2

### Forespørsel om intervju

Til den det måtte gjelde,

Mitt navn er Hashim Bhatti og jeg er masterstudent ved Universitetet i Agder. I skrivende øyeblikk skriver jeg min masteroppgave innenfor økonomi og Administrasjon. Mitt tema er relatert til samarbeid mellom norske bedrifter og Kina. i tillegg til utfordringer ved forretning i kina og hvilke strategier som har bidratt til bedre samarbeid og suksess.

Jeg skriver denne oppgaven som en avsluttende del av min masterutdanning og hensikten med studiet er å komme frem til ny kunnskap og dypere forståelse av et internasjonalt forhold. I den anledning ønsker jeg å foreta en intervju med deres selskap for min oppgave.

Jeg ønsker å kunne ta opp intervjuet i tillegg til notater underveis. Intervjuet vil vare omtrent 1-1,5 time. Intervjuet kan gjennomføres på deres kontor, avtalt møteplass eller Skype. Alt informasjon vil holdes konfidensielt og bli anonymisert, og tilslutt slettet etter at jeg har levert oppgaven.

Deres samarbeid vil bli verdsatt høyt og vil være til stor hjelp. Jeg håper på en positiv tilbakemelding fra dere. Vennligst ta kontakt om noe er uklart eller om dere har noen spørsmål. Jeg kan nås på tlf. nr 99 12 51 21. Du kan også ta kontakt med min veileder om ønskelig på [trond.randoy@uia.no](mailto:trond.randoy@uia.no). Tusen takk.

Med vennlig hilsen

Hashim Bhatti